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Advertising Age

Crain's International Newspaper of Marketing. In Two Sections. Section 1.

Cynthia Johnson/Gamma-Liaison

Richard Darman, as director of the Office of Management & Budget under George Bush, may hold in his hand the future of advertising's tax deductibility.

New OMB director's stand on deductibility worries ad industry

By STEVEN W. COLFORD

WASHINGTON—Ad industry leaders are concerned that Richard Darman, President-elect George Bush's choice to head the powerful Office of Management & Budget, is a proponent of altering the tax deductibility of advertising expenditures.

Mr. Darman, considered a political pragmatist, was named budget director early last week.

The notion of reducing or altering advertising's tax status—now fully deductible as a cost of doing business—first arose at the Department of Treasury during tax-reform negotiations in early 1986. Mr. Darman was former Treasury Secretary James Baker's deputy secretary at the time.

The proposal initially was to reduce deductibility, perhaps to 80%. Later it was proposed that advertising costs be 80% deductible in the first year, with the balance deductible over the next four years.

Leaders of the advertising, broadcasting and publishing industries successfully defused that tax bomb, but it has continued to tick.

With President-elect Bush under pressure to cut the deficit, deductibility of ad spending is likely to be a major issue

(Continued on Page 63)

Burger King eyeing FCB

Lavely link could help agency

By SCOTT HUME

Foote, Cone & Belding is the leading contender to succeed N W Ayer on Burger King Corp.'s $200 million account should an agency change occur, sources say.

Both Burger King and FCB last week denied rumors that the Chicago agency already is at work on creative assignments and that it will present new creative strategies to the chain in early January.

"Foote, Cone & Belding has been in contact with us, but we have not singled out any agency at this time," a Burger King spokeswoman said last week.

The chain earlier said it was "looking at the option of another agency developing our new creative" (AA, Nov. 21).

Said to be working in FCB's favor is its longstanding relationship with Anthony Lavely, named Burger King exec VP-marketing earlier this year.

Mr. Lavely previously worked at Kitchens of Sara Lee and Jerrico (Long John Silver's Seafood Shoppes). FCB handled Long John Silver's until earlier this year; Mr. Lavely left the company in 1986.

Insiders say FCB certainly has had more detailed discussions with Burger King than any other agency, but apparently no change in agency assignment will be made until the question of who will own parent Pillsbury Co. is resolved. Executives at New York-

(Continued on Page 64)

CBS puts premium on its sports :15s

By VERNE GAY

NEW YORK—CBS-TV is starting to charge a premium for stand-alone 15-second commercials on all sports programs.

The move adds fuel to the fire that's starting to rage over rising prices for the shorter ad units.

The increasing demand for :15s and the resulting clutter, pricing and product protection problems have been called the "monster issue" looming for networks and advertisers (AA, Aug. 29).

CBS said last week it's boosting prices on the shorter commercial units—which have been set at half the cost of a standard 30-second unit—because it had trouble "matching," or finding partners, for advertisers who want :15s.

The amount of each premium will depend on demand.

CBS began experimenting with the plan two weeks ago for college and professional basketball, but it's now spreading to all sports programming, such as National Football League games, college football and golf's U.S. Open and Masters Tournament.

CBS tries to find appropriate 15-second "matches"—or another 15-second spot to fill out the standard 30-second unit—to avoid a "gap" between the end of one spot

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Last Minute News

JWT quits Pan Am review

NEW YORK—J. Walter Thompson USA pulled out of Pan American World Airways' $55 million review for its main airline account because of concerns over client conflicts, a JWT spokeswoman said. JWT handles Canada's WardAir, Italy's Alitalia and Mexico's Mexicana Airlines accounts, which on certain routes compete with Pan Am's international service. That leaves D'Arcy Masius Benton & Bowles; Della Femina, McNamee WCRS; and Ogilvy & Mather as remaining competitors (AA, Oct. 31). Wells, Rich, Greene previously handled. A separate competition is under way for Pan Am's $10 million Northeast shuttle account, which JWT isn't expected to join.

Grey to sell syndication unit

NEW YORK—Grey Advertising has agreed in principle to sell the majority stake in its TV syndication unit, LBS Communications. The buyer is a new company formed by Warburg, Pincus Capital Co. and Henry Siegel, chairman

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Exiting Omnicom?

Buyouts hinted for Ingalls, Waring

By GARY LEVIN and ALAN RADDING

Ingalls, Quinn & Johnson, Boston's second-largest agency, may be close to a leveraged buyout from its parent, Omnicom Group.

Another unconfirmed report late last week indicated a leveraged buyout for Waring & LaRosa, New York, also may be in the works. Both Waring and Ingalls are part of Omnicom's Diversified Agency Services group.

Reports circulated last week that a buyout for Ingalls is being engineered by Richard C. "Bink" Garrison, the agency's president; Bruce L. Kelley, exec VP-director of account management; and Harvey Gabor, exec VP-executive creative director.

Della Femina, McNamee WCRS, Boston's No. 3 agency, also was rumored to have attempted an acquisition of Ingalls, but those talks apparently have ended.

Ingalls billed $135 million last year.

A source at another agency said the rumors were fueled when a handful of Ingalls employees rejected job offers elsewhere because they'd been assured they would be part of an Ingalls buyout. The *Boston Globe* mentioned the possible leveraged buyout in an article last week.

Mr. Garrison would neither confirm nor deny the rumors under orders from Omnicom President-CEO Allen Rosenshine, who couldn't be reached for comment. "There's nothing I can comment or speculate about," he said.

An Omnicom spokesman declined comment, saying only that "we've not talked about it here."

A well-placed source, while acknowledging Omnicom's interest in a sale, said no deal was imminent.

Earlier this year, Mr. Rosenshine hinted at the possibility of selling part or all of Ingalls, Waring and Dallas-based Tracy-Locke, all part of Omnicom's diversified group.

(Continued on Page 63)

Staff photo by Michael A. Marcotte

Holiday shoppers Diane Davis (l.) of Hinsdale, Ill., and her sister-in-law, Kristen Davis of St. Charles, search for "something unique at good prices" at Bloomingdale's in Chicago.

Shoppers give big kickoff to holiday sales

An Advertising Age roundup

On the biggest shopping day of the year—the day after Thanksgiving—consumers loosened their purse strings and by midday had gone on a binge.

"This is a very robust holiday season," said Fred Marx, president of Marx & Co., a Bloomfield Hills, Mich., retail consulting company. He based his view on pre-Thanksgiving sales levels and consumer buying up to midday Friday.

That day is a key barometer for holiday sales because a strong fourth-quarter can account for as much as 44% of total year sales.

In Houston, Robert Sakowitz, president-ceo of Sakowitz Inc., was buoyant. "We had people waiting outside the door" at opening, he said. "I think it's going to be a very good Christmas."

In Hayward, Calif., lines also formed outside Mervyn's before opening and sales were brisk all morning. "In many markets, we're trending ahead of last year," a spokeswoman said.

In New York City, where the weather was sunny and cool, major retailers reported sales Nov. 25 were exceeding their expectations.

"So far, it's very, very strong," said Anthony Verizis, exec VP-marketing and communications, Abraham & Straus. "The stores are jammed."

At Bloomingdale's, stores were packed with customers. "Sales look very strong . . . above expectations," said Julian Taub, senior VP.

On Fifth Avenue, fresh from a major store remodeling, B. Altman's

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Ties to Chrysler pay as Ross Roy bags Alfa Romeo

By PATRICIA STRNAD

Ross Roy Inc. was rewarded last week for its persistence in seeking a car account from client Chrysler Motors—it got the $10 million Alfa Romeo account.

Alfa Romeo selected Ross Roy to handle national advertising for its import line after a five-month review.

The Bloomfield Hills, Mich., agency got its big break in mid-October when Chrysler and Alfa's Italian parent, Fiat Auto, formed a joint distribution company, headed by Darrell Davis, formerly general sales manager for Chrysler (AA, Oct. 17).

Mr. Davis said Ross Roy's automotive experience—it already handles Chrysler merchandising—was a key factor in the decision. "Because of our limited budget, I felt merchandising would play an important part in whatever we did," he added.

Other finalists for the account were Tatham-Laird & Kudner, Chicago; Lord, Geller, Federico, Einstein, New York; and Biederman & Co., New York. An Alfa official said at least 100 agencies expressed interest.

Ross Roy last year lobbied hard for the $100 million-plus Jeep/Eagle business after Chrysler acquired the lines as part of American Motors Corp. But Chrysler stuck with AMC's agency, William Esty Co., now Campbell-Mithun-Esty, Southfield, Mich.

"As we've gone through these so-

(Continued on Page 63)

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Politicians are ad-recall winners

By SCOTT HUME

George Bush, Michael Dukakis and the nation's other candidates for political office were the best-recalled advertised products last month.

Fittingly, at a time when the quality and effectiveness of the two major presidential candidates' TV advertising sometimes seemed the campaign's most discussed issue, politicians were the most effective advertisers.

When 1,000 adults were asked last month which advertisement they first recalled having heard, seen or read, political ads easily outdistanced the field.

That field included such high-visibility products as (Nos. 2 through 10 in descending order): McDonald's, Anheuser-Busch's Budweiser/Bud Light, Miller, Pepsi-Cola, Coca-Cola, Chevrolet, California raisins, Ford and Stroh.

Like the latest hit on the music charts, political ads have steadily moved up toward the top spot. They ranked No. 9 in August before inching up to No. 6 in September and then taking the crown in October.

Political advertising topped the recall lists for all demographic groups but had higher recall among men (57% of those who named political ads first) than women, and highest among respondents ages 25 to 34 and among those with household incomes above $60,000.

The strong response garnered by political advertising kept McDonald's from repeating for a second consecutive month as the advertiser with the best overall top-of-mind awareness.

But McDonald's did pass a milestone. When the 1,000 adults were asked which fast-food advertising they first recalled having seen, heard or read, McDonald's was named by 51.7% of the respondents.

No single advertiser ever before has received the first mentions of more than half the respondents, though McDonald's recall score traditionally has hovered around that mark. In September, for example, it got 48.4% of first mentions.

What likely put Big Mac over the top in October was the heavily advertised one-two punch of its "When the U.S. Wins, You Win" Summer Olympics game promotion followed by the return of its "Mac Tonight" character.

Burger King last month launched the largest national promotion in the hamburger chain's history—the "Triple Jump Checkers" game promotion—and hardly anyone noticed.

Despite heavy network and spot TV support, awareness of Burger King's advertising actually fell to 12.6% of first mentions in October, down from 13.7% in September.

Wendy's was third last month with 8.8% of first mentions.

AdWatch is a joint project of Advertising Age and the Gallup Organization. Advertising awareness is measured by asking a nationally projectable sample to name the advertising that comes to mind first, both overall and in specific product categories.

Last month, 1,000 people were polled by phone. The survey has a margin of error of 3.1%.

Among other significant changes in the October survey:

- Just as the **computer** category started to tighten up, Apple has surged again.

In September, recall of IBM's advertising jumped 6.2 points to 28.8% of first mentions, putting it only a half point behind Apple's 29.3% share. But Apple's advertising rebounded last month, rising 4.8 points to a 34.1% top-of-mind recall rating; IBM was down to 26.7%. Radio Shack was third with 2.9%.

- Ford lost most of its previous month's gain in the **cars and trucks** category, falling 3.5 points to 22.8% of first mentions. Chevrolet was unchanged at 22% in second place; Toyota was third with a 6.4% share.
- Goodyear's advertising continued the impressive increase in awareness it has registered in the **tire** category since the "Nobody fits you like Goodyear" campaign began in August.

That month, its share of first mentions rose more than 5 points to 27.5%. In September, its share moved up to 29.3%, and last month it hit 31.2%.

This was the first time any one tire marketer's advertising had been named by more than 30% of a monthly sample.

Michelin was second in October, with 16.9% of first mentions; Firestone third with 7.1%.#

For more information, contact the Gallup Organization, 301 S. 68th St., Lincoln, Neb. 68506. Phone: (402) 489-0351.

AdWatch survey of advertising awareness
Top 10 in October

One thousand people were asked: Of all the advertising you have seen, heard or read in the past 30 days, which advertisement first comes to mind? Source: Gallup Organization, Lincoln, Neb.

Rank		Advertiser	Agency
10/88	9/88		
1	5*	Political ads	Various
2	1	McDonald's	Leo Burnett USA
3	3*	Budweiser/Bud Light	D'Arcy Masius Benton & Bowles/DDB Needham
4	7*	Miller	Backer Spielvogel Bates/J. Walter Thompson USA
4*	2	Pepsi-Cola	BBDO Worldwide
6	3*	Coca-Cola	McCann-Erickson
7	7*	Chevrolet	Lintas:Campbell-Ewald
8	9	California raisins	Foote, Cone & Belding
9	5*	Ford	J. Walter Thompson USA
10	—	Stroh	Lowe Marschalk

* Indicates a tie.

How old is young?

Ask us here at *Youth Beat* - the fastest growing Sunday supplement in America.

In 1988, we conducted a successful, 16-week, coast-to-coast test. The results were so positive that starting January 8, 1989, *Youth Beat* will appear weekly in 25 newspapers and 3,334,346 circulation, increasing to 45 newspapers and 8,788,489 circulation in July, and 66 newspapers and 12,500,000 circulation by October 1989.

We thought we were publishing primarily for the younger generation - mostly teenagers in high school. But our June 1988 survey really opened our eyes: *Sixty-three percent between 18 and 34. About equally divided between men and women. Thirty-six percent married.*

Ninety percent, high school educated. Seventy-two percent employed. Average household income $32,000.

We're attracting this savvy, young-adult readership because of the range and quality of our editorial content: sports, films and music, stars and superstars, career opportunities, self-help suggestions, current affairs, education - *plus* two page inserts of local news and features indigenous to each newspaper.

All immensely readable, clear, down-to-earth, exciting.

But whatever the attraction, *we do know* that our audience is responsive. Very responsive - making *Youth Beat* an ideal addition to your media mix.

Our readers purchase everything from cars to cosmetics. Stereos, cameras and bicycles - to costume jewelry, computers and VCR s. Food, candy and soft drinks - to records, clothes, insurance - you name it.

And why not - when they control nearly *50 billion dollars* of spendable income - directly influence another *80 billion dollars* of purchasing power.

And our rates?

Less than half that of our major magazine competitors. Our current rate of $5 a thousand for Charter Advertisers is guaranteed through December 31, 1989, *provided* there is a minimum space commitment equivalent to 6 pages and the first insertion is run by April 2, 1989.

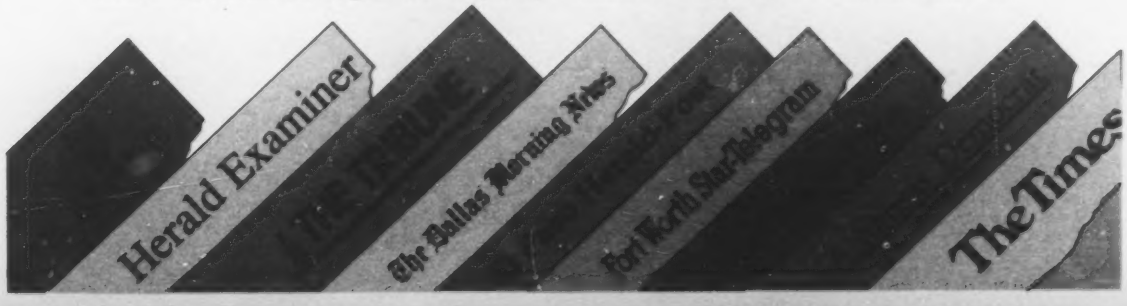
How old is young?

Get our current survey, get our rate card, get to know all about *Youth Beat* - before it's a day older.

Just call, or write.

DIRECT LINK MEDIA, INC. Youth Beat
Young America's Newspaper

Contact: **International Magazine REPS, Ltd.**, 200 Madison Avenue, NY, NY 10016, Tel: 212-689-5777



Aaron will star in Pepsi promo

Somers, N.Y.—Baseball Hall of Famer Hank Aaron has signed with Pepsi-Cola Co. and Arby's Restaurants for a national spot TV and radio campaign in February to raise funds for Big Brothers/Big Sisters of America.

The eight-week promotion offers Hank Aaron collector's cups at Arby's with purchase of Pepsi products.

The campaign is being created by Tracy-Locke, Dallas, which is Pepsi's agency for regional advertising.#

Canon zooms in on future growth

Focus changes to consumer desires

By DAVID KILBURN

TOKYO—Canon, the electronics company that built its business exporting high-quality, lower-cost products designed and made in Japan, is in a state of transition.

Protectionism, trade friction and the yen's high value have forced Canon planners to take a hard look at how the company should position itself to maintain growth in the future—especially considering the soon-to-be unified European market and the growing sophistication of consumers worldwide.

Unlike most other Japanese companies, Canon has relied on overseas markets for 70% of its sales, which hit $7.9 billion in 1987. North America and Europe are Canon's two largest world markets, each accounting for around 30% of sales.

While export growth has given Canon an edge in international sophistication, it means the company must deal with trade problems and protectionism to sustain growth.

Should Canon fall prey to the troubles caused by exporting, it cannot fall back on a large domestic market in Japan to survive. Canon's overall business is far smaller than its major domestic competitors'.

Concerned about consumers

Reflecting the company's foundation, Canon still holds technology in high esteem, but must be more open to consumer desires.

"We aim to develop our own unique technologies, which can then form the basis of our products," said Eiji Toyosaki, corporate communications manager. "Product development is handled entirely" by research and development.

However, he admits Canon "must change from being a product-oriented company to a market-oriented one. Until now, we have been concerned more with production and sales than marketing. We will be focusing much more closely on the needs of different consumer groups in each country and less concerned with the traditional production-oriented way of thinking."

This change will call for a complex readjustment in almost every aspect of Canon's activities.

"As marketing is made stronger, there is the risk it will weaken the motivation of the engineers who both pilot the new technologies and develop the new products," Mr. Toyosaki said.

The problems can be overcome, he said. "The engineers are already getting involved in marketing and finding out about the consumer. R&D and marketing were once separate functions but, in the future, they will become increasingly integrated," Mr. Toyosaki said.

A young company by Japanese standards, Canon dates from 1933 when a small group of camera enthusiasts started a laboratory to design and manufacture 35mm cameras matching the quality of the German-made Leica. After two years, it produced its first camera sold at half the price of the Leica, including innovations such as a pop-up viewfinder. In 1937, the laboratory was reorganized and incorporated, creating the company now called Canon.

Canon is picturing itself as consumer oriented. Dentsu handled this Canon EOS camera ad, headlined "Prelude to Life."

Beyond cameras

Today, the product line includes video, business machines, medical equipment, broadcast equipment and semiconductors. Business machines now account for about 75% of sales, with cameras and optical equipment accounting for 18% and 7%, respectively.

So far the company's technological edge has helped it make steady progress. In 1987, it was No. 91 in *Fortune's* ranking of the biggest industrial corporations outside the U.S., up from No. 98 in 1986 and No. 125 in 1985.

But circumstances are changing, said Noritomo Kobayashi, manager of the international marketing development division.

"This year we have introduced the Global Canon Marketing System," a business plan to enable Canon to relate better to consumer needs across its many markets, he said. For instance, the plan could lead to standardized hardware of products with varied software.

"It is still too early to say that we are making a global marketing strategy; the system is still too new. But, in the future we must have this function, and it will need to be very strong. Without it, the value of our products will be much smaller than their potential," he said.

Although vying with Minolta to be Japan's largest camera marketer, Canon is increasingly being pressured by Nikon, which also has technologically advanced products and a keen sense of consumer needs. Competition in Canon's other business areas—much coming from the same competitors as in the camera market—isn't any easier.

The change in philosophy is clearly demonstrated by the company's plan to replace its current divisional structure.

Philosophy lesson

"At the moment, we have a traditional structure based on three product group divisions—cameras, optical products and business machines. We will see a change from product divisions to more market-oriented groups that will reflect the needs of customers more directly," said Hisashi Tainaka, general manager-international marketing division. The company is considering restructuring to set up home, society, industry and workplace divisions.

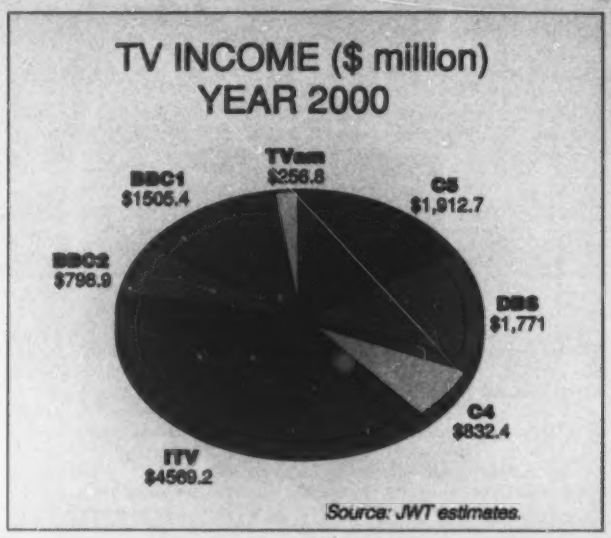
Canon has been manufacturing overseas since 1970, when a camera factory was set up in Taiwan. More recently, as the rising value of the yen has made Japanese-made products increasingly expensive overseas and as trade friction has made export strategies more difficult, the company has opened more facilities in major markets.

The objective, Mr. Toyosaki said, "is to make Canon a company with no national identity and free from trade friction, by setting up autonomous manufacturing subsidiaries and, more recently, R&D facilities, keeping production close to the place of consumption."

Canon's progress overseas is important to its main agencies in Japan. Unlike most Japanese companies, Canon has consistently supported Dentsu and Hakuhodo in their own international moves.

Canon is a key account for Dentsu Corp. of America in New York and for Hakuhodo's office in Amsterdam, which coordinates much of Canon's advertising in Europe.

In 1987 the company spent $311 million on media advertising, production and point of purchase. Spending is divided evenly among Europe, North America and Japan.#



U.K. advertisers applaud attempt at deregulation

By LAUREL WENTZ

LONDON—Though advertisers eager to curb the rising costs of TV ad time are welcoming the U.K. government's radical proposals to deregulate TV and radio, some broadcasters are worried.

A long-awaited 45-page government report, "Broadcasting in the '90s: Competition, Choice and Quality," published earlier this month, is the basis for legislation to be introduced and likely to be approved by Parliament next year. It would change completely the system of two non-commercial BBC channels and two advertising-supported channels.

Ken Miles, director of the Incorporated Society of British Advertisers, said advertisers are pleased about plans to start a fifth national TV channel in 1991, with the possibility of a sixth to follow.

However, he said advertisers are "not very happy" about the proposal to sell off the 16 regional franchises of the existing commercial network ITV when the franchises expire in 1992 or about plans to replace the current tax on the ITV companies' profits with a new tax on ad revenue.

"We think that to add an advertising levy on top of paying a lump sum on [buying] a franchise may put up the cost to advertisers and affect [franchisees'] ability to make good programs," he said.

The government report discusses the BBC; the existing two commercial channels ITV (to be renamed Channel 3) and Channel 4; the fifth and sixth channels; cable TV; and the new direct broadcast by satellite channels that will begin in the U.K. in February.

TVS Entertainment ads warn that deregulation could lower program standards.

If Parliament passes the report's recommendations, all channels except the BBC can seek revenue from advertising, sponsorship and subscription or pay TV. Mr. Miles said barter syndication, now banned in the U.K., is likely to be allowed; however, it is not mentioned specifically in the report. And even the BBC will be encouraged to explore sponsorship and pay TV for special events to reduce dependence on annual TV license fees.

"We hope [ad] rates will stabilize with the extra supply," Mr. Miles said.

U.K. advertisers want relief from prices that have been rising by 15% a year as demand continues to outstrip the seven minutes per hour of commercials available on ITV and Channel 4.

"Advertisers are looking for an increase in commercial impacts," said Stewart Butterfield, European media director, McCann-Erickson.

In a new J. Walter Thompson Co. report on TV in the year 2000, JWT TV Controller Tim Drysdale predicted that by the end of the 1990s, commercial audiences will increase by 20% as new channels win viewers from the BBC and increase the number of viewing hours.

The existing ITV companies that stand to lose their franchises oppose the sweeping changes. TVS Entertainment, the ITV company covering southern England, has been running page newspaper ads of a sultry woman doing a striptease with the warning that TV deregulation in Italy led to declining program standards. TVS Chief Executive James Gatward predicted that U.K. TV ad revenues will total $3.2 billion in 1992, a 36.2% increase from 1987. Mr. Gatward said that would be insufficient to fund all the planned new TV channels.#

World News Roundup

(Continued from Page 3)

munity's commercial integration in 1992, when the EC's trade barriers will fall. Also, the *WSJ/E* is inviting agencies to submit ads describing their vision of Europe in 1992.

BRASILIA, BRAZIL—The Brazilian government approved regulations for the manufacture and sale of diet soft drinks. Both Coca-Cola Co. and PepsiCo plan to launch diet colas soon. McCann-Erickson, Sao Paulo, handles Coca-Cola Co.; ALMAP/BBDO, Sao Paulo, is Pepsi's agency.

MEXICO CITY—Televisa, Mexico's broadcasting conglomerate, will launch Dec. 5 Galavision, a Spanish-language TV channel in Europe via the Eutelsat F4 satellite.

BREMEN, WEST GERMANY—Jacobs Suchard in 1989 will begin testing Milka chocolate bar in the U.S. Test markets haven't been determined. Young & Rubicam, Chicago, handles in the U.S.

MADRID—The Pearson Group, London-based publisher of the *Financial Times*, bought 35% of Spain's leading daily business paper, *Expansion*, from publisher Area Editorial for $10.3 million.

Rate hikes fall off pace as poor year hits pricing

Moderate increases, some below inflation, mark a year of transition

Media mavens watch Robert J. Coen's forecasts with a mixture of hope and fear. How they respond depends on which side of the bargaining table they are sitting.

Since 1950 Mr. Coen has dauntlessly prognosticated the media's winners and losers. McCann-Erickson's senior VP & director of forecasting casts his eyes upon 1989, picking moderate price increases in every media category despite poor performance in many.

By Robert J. Coen

Although a moderately higher rate of inflation is expected for the U.S. economy, the pace of media price increases is likely to be the same or even more modest than at the start of 1988.

The expectations of extra advertising demand from the elections and the Olympics raised the pricing targets of most media at the start of 1988. But demand fizzled and prices softened as the year unfolded.

The normal post-Olympics slump plus the failure of a turnaround in ad demand should suppress price increase pressures to cover higher postage, paper and labor costs. In 1989, most media hope to raise their prices by 4% to 6%, but most marketers intend to maintain tough buying tactics.

Most of the key marketing categories have continued to emphasize price and promotion tactics over advertising. Signs of surging product categories are not immediately evident. Unless some new unforeseeable ad demand appears within the next few months, media reinflation is not likely to reappear soon.

The present levels of media supply and demand suggest relatively modest rate hikes in 1989.

No medals for network TV

The Olympics added nearly $1 billion to network TV ad revenue. Without the Olympics revenue increases would have been quite small and price increases would have been insignificant except for a few of the most popular prime-time and sports programs.

During non-Olympics months in 1988, network prices were flat in most time periods and the average cost of a 30-second spot actually declined during daytime hours. The loss of interest in daytime units and the proliferation of 15-second spots have significantly shifted the supply-and-demand relationship.

Unit price increases for 1989 will be mixed, with prime time and sports up about 4% or 5% on average. A modest further slide in ratings could mean cost-per-thousand increases of 5% to 6%. Although the decline in the price of the weekday daytime units may be about over, no significant increase in these prices is likely soon.

Increases in the price of all dayparts are expected to average about 3% for the year, with CPMs rising about 4%.

Spot TV supply up, demand down

The shift in the supply-demand pattern for spot TV is quite similar to network TV's. The supply of acceptable inventory has been growing as demand has been slipping.

In 1987 there were clear signs that most key national and local spot category budgets were no longer rising. In 1988 the Olympics and the elections provided only a modest quadrennial boost. In 1989, no significant new-product introductions or competitive budget increases are expected.

The average unit price increases for spot TV will rise only 2% over their 1988 levels. The trend toward audience fragmentation also should persist, meaning most commercial units will deliver slightly smaller audiences. In 1989 the CPM for most spot TV schedules is expected to rise about 3%.

(Continued on Page S-18)

Doug Goodman

In 1989 the big money will be in the vault, not in media companies' coffers, predicts McCann's Robert J. Coen.

Rates bending, but will they break?

Pressured publishers move to change haggling along strictly dollar terms

By Laurie Werner

Publishers and ad agencies may move the negotiating table into a boxing ring next year. Rate negotiation talks are bound to be no-holds-barred slugfests.

"The supply of magazines is up, and the demand is down," says John Gray, senior VP, director-media planning, J. Walter Thompson USA. "And that is going to put tremendous pressure on publishers."

Every negotiating tool will be called into play to diffuse strictly dollar-related bargaining. "Rate negotiation is a fact of life," however, according to James Guthrie, exec VP-marketing development, Magazine Publishers of America.

It even may be on the rise given publishers' intention to raise rates 6% to 8%. "Postage and paper increases may account for a 5% increase, but that doesn't justify 6% to 8%," Mr. Gray says.

"There's no average discount," he says, but rate cuts usually range from 5% to 10%. The rate may be slashed 50% when a publisher is desperate to fill a page, Mr. Gray says.

"They could turn to other places to cut costs," he says. "*Time's* recent decision to prune expensive circulation [to stave off a rate increase] is the right thing to do."

While magazines must meet fixed costs, they can trim the size of their book to lower production expenses. Television has less flexibility because cutting corners immediately would be apparent in programming production values, says Art Heller, exec VP, director-media programming and promotion services, Griffin Bacal. "But it's a trade-off, and some magazines are getting to the point where they may compromise editorial quality," which will be their undoing, he says.

Yet they may have no choice but to cut rates in a marketplace where competitors deal off the card. "Several magazines have proved to be immune to negotiating, but whether they will be able to continue that policy is the question," Mr. Heller says.

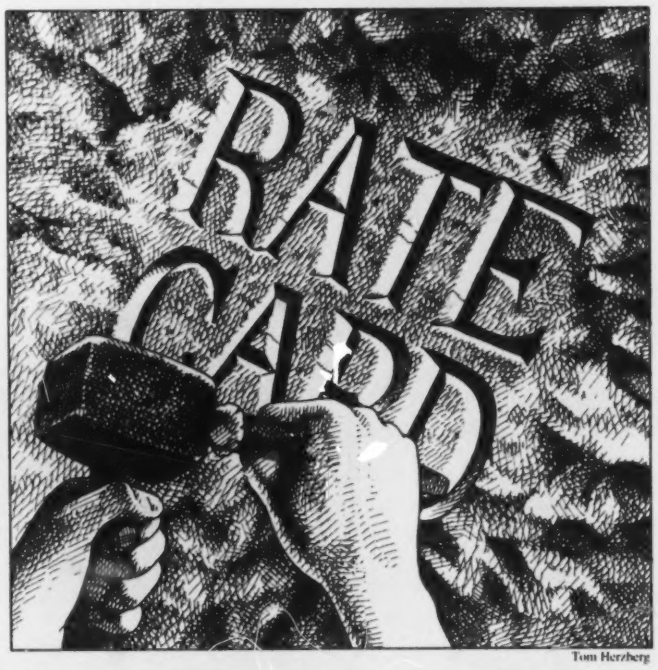
There are ways to write a rate card with a chisel—not with a pencil and eraser—and still negotiate, he says.

Cross-magazine and cross-media discounts allow rate cuts to be spread more thinly among individual publications. Ideas such as Time Inc.'s Max-Plan, which gives advertisers space credits if they match or exceed the money spent in Time Inc. publications during a year, will be on the rise, Mr. Gray says.

But relatively new discounting twists will take hold. Exclusivity discounts are emerging where publishers offer discounts to advertisers that buy their book but not the competitor.

Salesmen are highlighting

(Continued on Page S-2)



Tom Herzberg

Laurie Werner is a New York-based free-lance writer who frequently covers advertising and marketing subjects.

View from the trenches: Magazines

Time to spruce up those dusty racks

New foes 'leave less for magazines,' forcing a change in reaching buyers

It's gut-check time for magazines. They not only face mounting pressure from other media for consumers' time and media dollars, but advertiser and agency demands for rate bending, merchandising options and prime positioning are at peak levels.

All this happens as the medium posts gains. Figures for the first three quarters of this year show ad revenue up 8.6% to $4.1 billion from the same period last year, and ad pages up 2.8% to 117,546. Magazine Publishers of America President Don Kummerfeld predicts total 1988 revenues will rise 9% to almost $5.9 billion.

But the medium's big picture looks murky. Magazines' share of total ad revenue dropped to 5.3% in 1987 from 6.1% in 1980. Magazines are losing share to cable and conventional TV, says John J. Meskil, exec VP-media and administration at Warwick Advertising.

The problem will continue, "leaving less for magazines," he says. "Growth of cable homes at affordable pricing will cut into magazine revenue at an increasing rate in 1989."

In the following piece, Mr. Meskil suggests magazines will need to bend a bit more to accommodate a more demanding buying audience.

By John J. Meskil

Circulation is becoming a major problem for many magazines. Single-copy newsstand sales peaked in 1980 but have declined by more than 14 million in the last 10 years despite the addition of 150 major titles. Nine of the top 10 leading newsstand magazines have lost circulation in the last two years.

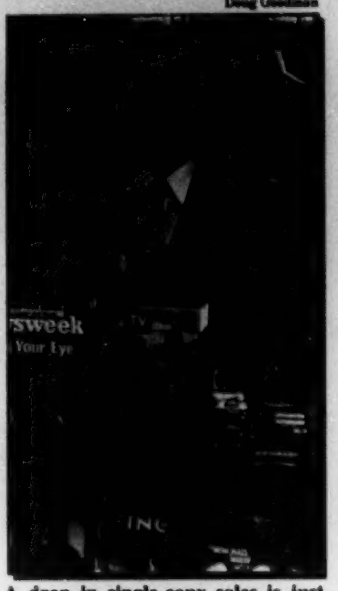
Subscription sales have increased significantly, compensating for the loss in single-copy sales. However, these subscriptions are more expensive to obtain as publications rely increasingly on promotions and incentives to generate readers.

Magazines will face increasing pressure to raise cover/subscription prices to supplant increasing production costs. The average cost of an annual magazine subscription has risen from $18 in 1981 to $23.50 in 1989, about the same cost to install cable. Asked to make a choice, consumers increasingly will subscribe to fewer magazines to afford cable.

But magazines have no other alternative to raising costs to the consumer. Paper costs are increasing 15% annually and second-class postage is up 17%.

Circulation losses will result when magazines find it too expensive to promote to the marginal reader. Circulations of many major magazines, particularly those with more than 1 million circulation, will decline in 1989. For example, recognizing the high cost of attracting and maintaining subscribers, *Time* elected to cut guaranteed circulation, defraying an ad rate increase.

Doug Goodman



A drop in single-copy sales is just one of publishers' many woes, says Warwick's John Meskil.

The increasing cost of paper, postage and promotion will cause most magazines to hike ad rates 7% to 8% in 1989. For example, *McCall's* rates will jump 7% and *People's* 7.8%. Magazines held 1988 rate increases to 3% to 5% and will play catch up next year.

Publishers have to allow room for rate negotiation, but they will hesitate to cut rates in 1989. We are close to the point where rates are cut at the expense of editorial quality, which would sound their death knell.

While rate negotiation will continue in 1989, the term will go out of style. Advertisers and agencies know who will cut rates to get the business, but magazines have gotten better at the art of negotiation and will give the store away only to very big advertisers.

Magazines will emphasize their role as a marketing partner. The terms "added value" and "product specific merchandising" will be in vogue in 1989 as magazines and clients attempt to enhance the value of the medium in moving product.

For example, in *Mademoiselle's* "Center Stage" shopping-mall program editors showcase the latest fashions and advertisers give away shopping bags reinforcing the tie in between editorial and advertiser. *Better Homes & Gardens, Vanity Fair* and other magazines have developed ways to tie advertised products to the magazines' retail and consumer influence.

The concept of pooling merchandising dollars from several publications to build a high-impact added value should be advanced. Rather than having advertisers approach single publications and receive a 1% merchandising allowance, all publications involved in the buy can combine efforts to give the advertiser something bigger.

Ad positioning will become a bigger negotiating chip in

(Continued on Page S-18)

Rates bend

(Continued from Page S-1)

"added value" to existing rates rather than discussing discounts, even when the latter is involved. "The 200 advertisers in our Max-Plan have earned millions of dollars of credits, but more important, they've extended their reach in our magazines and their share of market," says Reginald Brack, Jr., president, Time Inc.'s Magazine Group.

Value-added is also the buzzword at Hearst Corp. "It's our responsibility to educate ad agencies that thinking price alone does not serve their clients' needs," says Claeys Bahrenburg, exec VP, group publishing director. Hearst positions its four magazine packages as franchise builders, not just discount options.

"We don't view advertising as just selling ad pages," says Mr. Bahrenburg, "we view it as being an advertiser's and agency's marketing partner." Hearst has worked with Procter & Gamble Co. and Kraft Inc. to create point-of-purchase promotions, using "The value of our franchise to give positive ruboff to their products."

Value-added options are becoming so much a part of the buying process, agencies often view with suspicion publishers who dwell only on discounts. "We've seen companies come in and give too much away," says Leo Scullin, senior VP, director-new electronic and print media, Young & Rubicam. "It immediately makes us suspect of their business situation."

Editorial tie-ins, special sections, special issues and ad positioning will become increasingly important negotiating tools, says Mr. Gray. The importance of each will vary depending on client needs.

"Some need pure tonnage, saturation for the lowest cost, so you go for rate negotiation. Others need unique positions near a certain editorial, so you don't push as hard for price, you go for positioning," he says.

"Positioning is vital to us," Mr. Heller says, adding that front-of-the-book isn't always the criteria. "We look for positioning opposite editorial that will talk to our target."

Promotional tie-ins such as trips and tennis/golf tournaments may not generate a buy, but they can help push reluctant advertisers over the edge. "Next year we'll see proof of publishers' creativity," says Mr. Gray. "Offerings will be limited only by their ability to dream something up."

They will have to dream big, particularly as the trend of advertiser-as-publisher accelerates, says Louis Schultz, exec VP, Lintas:Campbell-Ewald. "I see a lot of advertisers looking at proprietary magazines because it is the closest a magazine can come to direct marketing," he says.

Client General Motors Corp. Chevrolet division's *Chevy Outdoors*, a quarterly for truck owners, gives the company a targeted forum for its ads and sells space to advertisers such as Coleman Co. and Winnebago Industries.

As for publishers' moves to creatively blunt rate cuts, Mr. Schultz bets that dollars will remain the focus of negotiations. "We're certainly interested in talking about positioning, merchandising and all the bells and whistles. But first the rate has to be right."

The Big Hitters: Magazines

Total & top 10 media spenders (January to June, $000,000)

		1988	1987	% chg
	Total spending	$2,749.4	$2,183.1	25.9%
1.	**Philip Morris Cos.**	111.2	130.9	-15.0
2.	**General Motors Corp.**	104.1	80.7	29.0
3.	**Ford Motor Co.**	66.3	64.7	2.5
4.	**Chrysler Corp.**	65.2	40.5	61.2
5.	**RJR Nabisco Inc.**	58.5	53.6	9.2
6.	**Procter & Gamble Co.**	45.3	36.4	24.3
7.	**Unilever NV**	33.0	29.6	11.2
8.	**Time Inc.**	29.2	27.6	5.9
9.	**AT&T Co.**	27.3	29.8	-8.5
10.	**Honda Motor Co.**	26.7	24.9	7.1

Source: BAR/LNA Multi-Media Reports

POINT OF ATTACK

Climbing costs cause concern

The three Ps of publishing are starting to sour Peter Diamandis' mood. "The biggest issue we will face next year is escalating costs—press, postage, paper," says the ceo of Diamandis Communications.

"It's tough to take all in one year," he says, adding that publishers will face a 10% to 15% increase in paper prices next year. "That's too much. It'll drive marginal guys out of the business. The rest of us will have to fight like hell to keep those costs down," he says.

Mr. Diamandis says publishers will explore alternate delivery systems and group paper purchases at fewer suppliers to realize volume discounts. "There are cheaper means available," he says.

Christopher Whittle (left); Peter Diamandis

Publishers also must address the continuing decline of single-copy sales. The obvious solution, according to Mr. Diamandis, is to "Create excellent magazines that the public wants to buy."

Constant innovation is the approach used at Whittle Communications, says Chairman Christopher Whittle. "We're in an extremely idea-driven business," he says. Mr. Whittle's big idea this year galvanized the publishing industry, as other publishers viewed as predatory the company's exclusivity agreements with doctors, dentists and others with waiting rooms for its *Special Report* publications.

But concepts like this meet the primary purposes of serving reader and advertiser, he says. "If you have the right idea, [advertisers] are more than happy to participate."

However, *Special Reports* cannot grow, Mr. Whittle says. "Where most publishers look to define their growth by extending circulation or increasing ad pages, we can't do either."

This forces the company constantly to come up with new concepts, a situation most publishers rarely face. Whittle Communications will launch eight to 12 new publications next year, which he describes as "a typical year."

"Unlike other publishers, I don't have competitive pressures. I don't have rate pressures. I don't use the post office, so I don't have postal rate pressure. And we don't use much paper," Mr. Whittle says. "Coming up with ideas and recruiting new talent are the challenges we face."

—Laurie Werner

Trouble corralling the grazers

Studies hint at depth of problem, but nets just begin to shake their apathy

By Jim Benson

Network and advertising executives long have feared the day when the TV generation would reach adulthood, bringing with it limited attention spans and itchy remote-control trigger fingers.

The day has arrived, and channel switching, also known as grazing, has become an accepted part of viewing among those in the demographically desirable 18-to-34-year-old age group. Similar to commercial zapping, grazing illustrates viewers' inability to get hooked by a specific TV program.

The issue is whether grazing will put the networks further out to pasture. The implications could be staggering as networks are forced to charge drastically lower rates to reflect transient viewing audiences. Advertisers, meanwhile, would reach fewer and less-involved viewers.

Despite indications the problem may be growing worse, neither advertisers nor network executives are panicking. "I think we've all been ignoring it," says a media buyer for a major company.

Tom Herzberg

Budgets are not being shifted because of grazing, "but there is some concern," says John Sisk, senior VP, director-network negotiating, J. Walter Thompson Co.

"It's hard to generalize because we don't have a lot of data," says Richard Kostyra, exec VP, U.S. director-media services, JWT. He admits that all preliminary evidence indicates channel switching "is a growing problem."

Data on the subject is sketchy, often conflicting. During its brief foray into the market in the 1987-88 TV season, R.D. Percy & Co. put its passive people meter system to work to assess grazing's impact. It found that 13% of viewers switch channels during the course of a program.

Another recent study claimed more than 50% of viewers aged 18 to 34 watch more than one program in a half-hour period and 20% watch three or more. Of the 650 men and women interviewed by Frank N. Magid Associates, 25% of all respondents claimed to change channels to at least one other program during a half-hour time period.

Although David Poltrack, senior VP-planning & research, CBS, has criticized the people meter, he not surprisingly considers the Percy results to be more reliable. The people meter figures he has seen also lead him to suspect that grazing patterns may not be entirely bad for the networks.

He points to the finding that 90% of the people who switch channels fail to return to the program they were watching. That bodes well for the network that winds up with the displaced viewers, he says.

Although show ratings can be provided on a minute-by-minute basis, programming is bought and sold based on total half-hour ratings. Mr. Sisk says ratings and media buys should be measured by the commercial pod. "There has been some talk about advertisers paying the rating at the time of the commercial," he says.

To hold the audience, networks must continue to aim for "more involved programming," Mr. Kostyra says, where viewers schedule programs into their nightly routine. Opinions on whether that entails developing more narrowcast shows or programs that appeal to the mass audience depends on the product being sold.

But Mr. Poltrack says the networks can take some definite steps to break grazing patterns. CBS just began using "attitude" messages at the end of its programs, where voice-overs discuss the remainder of the night's schedule as the program's credits are rolled.

Mr. Sisk says he would like to see more networks put commercials in during the show, and not after the credits. "Viewers race to turn the channel selector once the credits have aired," he says.

But the networks cannot do it alone. Zapping commercials within a show leads to grazing, and advertisers must come up with compelling spots that grab the viewer within the first few seconds, says Lon Bencini, media manager at General Mills.

The proliferation of humorous spots and those using vignettes—15-second and 30-second spots intertwined with news updates or quizzes—reflect advertiser moves to prevent zapping through creative approaches, he says.

Even with increasing entertainment values and unusual pod configurations, advertisers are stifled by network commercial practices. The Big 3 networks have to rethink their strategy of cramming promotional spots, public service announcements and news breaks into the last commercial opening, says Chuck Fruit, VP-corporate media, Anheuser-Busch Cos.

"The viewer doesn't distinguish between those as much as we in the business do," he says. "From now on the network programmers and advertisers are going to have to pay attention not just to the ratings, but to the way the shows are structured in terms of commercial load and other non-program material."

In prime time, advertisers have attempted to mute the effect of commercial zapping by increasing product placements on network shows. But many agency buyers believe the networks will start clamping down on the practice.

Paul Isacsson, exec VP, director-broadcast programming and purchasing at Young & Rubicam, New York, sees the advent of high-definition TV as a possible grazing stopper as the higher quality image might help capture viewers. "There is a lot of technology coming down the line that we can make use of," he says.

While grazing presents difficulties, "It's not the end of the world," Mr. Isacsson says.

Mr. Bencini sees it differently. "It's a big, fuzzy issue," he says. "I don't think too many people have their hands on it."

Jim Benson is a TV writer for the Los Angeles Daily News.

View from the trenches: TV

Another bad year for TV's Goliaths

The big kids on the block are bloodied, but not about to leave town

By Willard G. Hadlock

It's getting easy to pick on network TV. Sure, media's big hitter has seen ad revenues grow 16.5% to $4.7 billion from January to June 1988 compared with the same period last year.

But the big lunk is in big trouble. Cable is nipping at its heels, syndication is nibbling on its toes. Audience fragmentation and ratings declines, zapping and grazing, VCRs and pay-per-view, writers' strikes and less-than-warmly received season premieres: Need we say more?

Willard G. Hadlock, exec VP, media services at Leo Burnett Co., identifies the events that should have made network TV a shadow of its former self, why that shadow still has a lot of substance and how it is attempting to step back into the spotlight.

The network world has never been in such a state of flux as it is now. The change has come quickly; it is a much different TV market than what we faced in the early '80s.

The growth in alternate programming sources—both commercial sources like cable and syndication and non-commercial sources like pay movies and prerecorded tapes—have taken away the networks' sole dominance over TV. Additionally, the advent of the 15-second commercial, the demise of the National Association of Broadcasters code and a switch in TV measurement from diaries and household meters to people meters have changed how network TV is bought and sold.

The networks' share of audience has fallen from the low 90% level not so many years ago to the low 70% and high 60% level today—and it will continue to drop.

This failing network audience will have many repercussions. Advertisers will continue to pay rate increases while the networks suffer a revenue slump. Both buyer and seller lose.

How is this possible? Buyers, at least knowledgeable ones, measure their costs by costs-per-thousand and CPMs rise as audiences decline. The networks' revenues are based on unit costs and they have been unable to get unit price increases. In fact, Broadcast Advertiser Reports says the networks' total revenue has risen only 4% to $8.7 billion over the last three years.

Mary Horlehy

Everybody's a loser next year in buying and selling network TV, says Leo Burnett's Bill Hadlock. Ad rates are up and network revenues are down.

Flattening revenue in a period of rising costs has caused the networks' profit margins to fall from 12% in the late '70s to 6% in the mid-'80s and it is continuing down.

Declining audiences, flattening revenues and lower profits have been major factors in the takeover of the networks by outside corporations. These factors also are causing the networks to search for new areas of revenue.

One of those areas is increased commercial time. In prime time we have gone from six commercial minutes an hour to almost seven. It's likely that the commercial load will now move toward eight minutes an hour—we already have four minutes of ads in some half-hour shows.

Viewers may not like it, and neither will some buyers. But

(Continued on Page S-6)

Crossroads for video crossover

Soon as format settles in, home video set to burst as a powerful medium

By Wayne Walley

The year is 2008. The latest blockbuster surpasses $100 million at the box office. A media buyer smiles. A commercial for an important client already has been placed on the upcoming video release of the hit movie as part of an upfront package deal.

While many see this scenario as a future reality for the home video industry, it may be pure fantasy.

"Alternative" media forms emerge with regularity, but few hold the potential of videocassette advertising. Recent A.C. Nielsen Co. figures show 60% of American TV households have at least one VCR. The Electronic Industries Association estimates prerecorded cassette sales will jump 22% to 135 million units in 1988.

Rented videocassettes represent a potential ad medium of more than $45 million a year, according to Steve Wilson, chairman-ceo of Fairfield Group, a home entertainment consultancy.

However, since Pepsi-Cola Co. boomed through the videocassette commercial barrier by placing a 60-second Diet Pepsi spot on the "Top Gun" tape two years ago, home video has become more of an enigma than a medium.

"Studios and advertisers haven't been sure how to capitalize on video," says Robert Reisenberg, president, Maltese Productions and Maltese Video Partners. "The first thought is to sponsor a video or make a media buy, but people are finding out this is a small part of the equation."

Others see the medium emerging soon. "Videocassette recorders will be at 90% of home penetration in no time flat," says Louis Schultz, exec VP, Lintas:Campbell-Ewald. "Advertisers see the value of that." Advertiser-sponsored prerecorded videocassettes particularly will become "a real serious contender for ad dollars," he says.

Scores of advertisers have sponsored special-interest tapes, complete with commercials, as value-added premiums. Others have opted for cross-promotional campaigns offering consumers a rebate with video and product proof of purchase. For example, Royal Crown Cola purchased 20,000 units of "It's a Wonderful Life" and inserted a 30-second spot for a holiday season proof-of-purchase promotion.

Although Nestle Foods swung a deal to put its "Sweet Dreams" campaign on "Dirty Dancing," video spot sales have yet to set records.

"The real problem is to get advertisers to embrace video as an ad medium," says Jay Coleman, president of Rockbill Inc., an entertainment marketing company. "We're trying to establish video as another channel, a 'fourth network,' but advertisers are slow to respond."

Only a handful of major theatrical video releases have included commercials: Chrysler Corp.'s Jeep/Eagle division on "Platoon"; Nestle Foods Corp. on "Dirty Dancing"; Hershey's Kisses on "The Princess Bride"; Pepsi's "Floata" spot on "Innerspace" and Pepsi's Mountain Dew on the low-priced release of "Dirty Dancing," and Snickers on "Moonstruck." A Nestle's Crunch spot will appear on the Jan. 4 release of "Young Guns."

The stumbling block is that advertisers want quantifiable results while the studios do not want to equate video's uncluttered long-term commercial exposure with broadcast TV. The result is a more complicated deal.

"Conceptually advertisers believe ads on cassettes are an appropriate place to spend media dollars, but the question is how much," says Eric Kessler, VP-marketing, HBO Home Video.

Some companies use number of units ordered as a basis for payment, charging anywhere from $1 to $3 per tape to place a commercial. Others say rental transactions might be a better rate guide. Although impossible to determine before release, some suggest a minimum level be established and companies pay make-goods or receive bonus revenue depending on final rental totals.

"The problem is too little research," says Christine Alvarez, director of advertising, RCA/Columbia Pictures Home Video. Agencies want to verify and compare the number of impressions with network costs-per-thousand, she says.

Hershey and Pepsi paid about $2 per tape sold—an estimated $400,000 to $600,000—to place ads on "The Princess Bride" and "Innerspace," respectively. The advertisers struck a straight media buy instead of creating integrated cross-promotions.

The deal between Mars Inc. and MGM/UA Home Video to place a Snickers spot on "Moonstruck" hinged on Mars' willingness to lend marketing support. "We were not looking for X amount of dollars to put an ad on the tape," says Mr. Coleman, who helped engineer the agreement. "More important was the joint marketing effort where both brought money to the party."

Video companies don't want just ad dollars, says Louise Aliamo, VP-advertising and publicity for Nelson Home Entertainment. "We hope to have enough lead time to include cross-promotions to take advantage of an advertiser's consumer base the same way the company is trying to take advantage of ours." Nelson was eager to put ads on "The Last Emperor," but in the end opted for promotional deals with Chun King and Tsingtao beer.

The studios do not make much money by selling the time for cash, says Jerilyn Kessel, managing director, "Video-Flash." "Their revenues come from selling more units," which involves convincing retailers of consumer demand for a title via pre-release promotion and advertising.

"That costs more money and that's the reason the studios want a sponsor involved in more than one way," she says. "We've said from Day 1 that video will not be a mass medium like broadcast TV."

Media buyers say the video industry has not yet convinced them cassettes can be an effective ad vehicle. "You need a structure and a way to sell it as a package deal vs. title-by-title deals," says David R. Verklin, VP-media director, Hal Riney & Partners, San Francisco. "No one has tried to turn video into a medium."

The big hitters: TV

Total & top 10 media spenders (January to June, $000,000)

		1988	1987	% chg
	NETWORK TV			
	Total spending	$4,735.3	$4,066.3	16.5%
1.	**Procter & Gamble Co.**	172.8	192.3	-10.1
2.	**General Motors Corp.**	171.4	129.9	31.9
3.	**Philip Morris Cos.**	154.7	181.2	-14.6
4.	**Kellogg Co.**	140.0	109.8	27.5
5.	**Chrysler Corp.**	110.2	66.0	67.0
6.	**Unilever NV**	107.6	124.8	-13.8
7.	**McDonald's Corp.**	107.4	105.4	2.0
8.	**RJR Nabisco**	101.9	93.8	8.6
9.	**AT&T Co.**	97.5	73.1	33.3
10.	**Anheuser-Busch Cos.**	96.1	88.5	8.6
	SPOT TV			
	Total spending	$4,009.1	$3,548.3	13.0%
1.	**PepsiCo Inc.**	130.2	130.9	-0.5
2.	**Procter & Gamble Co.**	102.9	72.8	41.3
3.	**General Motors Corp.**	71.6	36.4	96.5
4.	**General Mills**	66.4	61.2	8.6
5.	**McDonald's Corp.**	58.1	55.1	5.5
6.	**Anheuser-Busch Cos.**	45.7	44.6	2.8
7.	**Pillsbury Co.**	45.7	56.5	-19.2
8.	**Philip Morris Cos.**	45.6	59.9	-23.9
9.	**Coca-Cola Co.**	34.0	35.5	-4.3
10.	**Nestle SA**	31.6	27.5	14.9
	TV SYNDICATION			
	Total spending	$424.8	$316.9	34.1%
1.	**Procter & Gamble Co.**	29.4	20.7	41.7
2.	**Philip Morris Cos.**	27.2	23.7	14.7
3.	**Kraft Inc.**	20.4	10.9	86.6
4.	**Bristol-Myers Co.**	15.7	10.7	47.1
5.	**Mars Inc.**	13.7	6.6	105.5
6.	**Unilever NV**	13.1	16.4	-20.0
7.	**Kellogg Co.**	11.5	10.4	9.7
8.	**Nestle SA**	11.3	11.0	2.9
9.	**Coca-Cola Co.**	10.4	4.8	117.3
10.	**Eastman Kodak Co.**	9.9	7.7	29.2

Source: BAR/LNA Multi-Media Reports. **Note:** Note: Major spending by auto dealer groups in spot TV (January to June 1988, $000,000)—General Motors Corp. Dealers Association, $85.4; Ford Auto Dealers Association, $48.7; Chrysler Corp. Dealer Association, $45.0; Ford Motor Co. Local Dealers, $42.4; General Motors Corp. Local Dealers, $38.3; Hyundai Group, $37.7.

Bad year

(Continued from Page S-4)

the networks will get away with it because of the way time is bought. They will be able to keep CPMs down by adding the slots.

A second area networks can increase revenue in a flat market is to charge premiums for 15-second commercials. At least two networks have stated their intention to charge a premium—and they will face some resistance.

Advertisers will reduce their use of 15s before they pay premiums; they already have avoided 15s in spot TV buys because of premiums. Piggyback pools, where 15s are combined into a 30-second buy to avoid the charge, will be established.

The networks also are looking for ways to charge premium prices for shows by featuring products within programming. For example, they will levy a premium per commercial and stipulate a minimum number of spots per show to feature an advertiser's product in a show's script.

I suspect the premium for including the product will have very limited appeal. Advertisers will not be interested in paying significant sums of money to put their brands in a show. This policy also might discourage advertisers from buying time in a show where a competitor's products are being displayed in programming.

Even with declining audiences and revenues, the networks will continue to dominate national TV.

> ***Advertisers will reduce their use of 15s before they pay premiums; they already have avoided 15s in spot TV buys.***
>
> **Bill Hadlock**
> **Leo Burnett Co.**

People watch programs, not stations or networks or cable or anything else. As long as the networks have the best programs—read "best" as most popular and not most critically acclaimed—they will draw the majority of viewers, sell spots on their programs for more money and continue to buy the best programs.

The fact that cable, and to a lesser extent syndication, have less than 100% coverage of the country contributes to network dominance. More coverage means larger ratings, which translates to more revenue because revenue increases growing geometrically as ratings rise, not arithmetically. A 20 rating is worth twice the CPM of a 10 rating but commands four times the unit cost.

So what, if anything, is going to change network dominance? Pay for view.

If the leading cable networks can get system operators to pay them significant fees to carry their shows, the whole game could change. Most major cable networks already collect per-subscriber fees from the system operators. But if fees were to rise to $1 a month, a cable network with a 40 million home subscriber base would raise $480 million a year, giving it a significant revenue base to bid for programming.

Depending how much cable and syndicated programming improves—and how far the broadcast networks push for premium prices to cover revenue losses—the networks' historical dominance of the TV marketplace may disappear.

Victim of its own success

Cable TV can't seem to escape web of low ad rates

By Wayne Walley

The darling of the TV business may have given itself enough cable to hang itself.

Cable TV has built a $1 billion-a-year business by offering advertisers a medium that is cheaper and more efficient than broadcast TV. But its efficiency has created a dilemma for today's cable executives: How to increase ad rates and revenues to achieve true market value without alienating customers.

While cable TV, according to the CableTelevision Advertising Bureau, might reach anywhere from one-quarter to one-third of the TV audience, it reaps only 8% to 9% of TV's total ad revenues.

Cable seems to be paying for its early days when demand was low and advertisers could essentially write their own ticket.

"If you continue to overly discount the price, you may never get that advertiser to true market value," says Jack Bonanni, senior VP-advertising sales, ESPN. Because ad budgets are based on previous year expenditures, cable sellers have two choices: Continue digging a hole or walk out on some business.

The solution is to establish a value and then stick with it, he says. "If we can't be ballsy now, when can we do it? We've broken the 50% penetration level. We're growing each month in the number of subscribers. Demand is growing geometrically while the broadcast network audiences continue to erode." Now is the time to increase the cost-per-thousand level, Mr. Bonanni says.

This is easier said than done. While those within the industry believe cable's CPM is too low, media buyers know price is negotiable because of cable's vast unsold ad inventory.

"The fact cable networks are 24 hours is a killer," says Bart McHugh, senior VP-director of national radio/broadcast, DDB Needham Worldwide, New York. "We buy cable because of its target audience. But the price is directly related to the amount of inventory and perceived value. To raise prices cable has to have more people who want it than don't want it."

Some suggest cable networks reduce their inventory by giving local operators more time or tightening inventory by running more on-air promotions in ad slots. If demand increases or even remains level while supply decreases, the industry theoretically could raise its rates.

But most cable executives consider this strategy unacceptable. "If you cut the number of spots in half, you have to charge double to stay even. That doesn't help," says Lloyd Werner, senior VP-sales and marketing, Group W Satellite Communications.

Artificially higher costs-per-thousand also could force advertisers to turn to other media. "You can justify a higher CPM because it is a competitive price or because your medium is worth it when the others are not worth the extra cost," Mr. Bonanni says.

Cable has long pushed the premise that its subscribers are better marketing targets because they can pay for TV and are more likely to purchase goods and services. While the theory has been corroborated by various studies and profiles of cable subscribers, media buyers now want more.

"Cable needs to show people practical results instead of philosophical arguments," says David R. Verklin, VP-media director, Hal Riney & Partners, San Francisco. "Maybe the future is showing a cost-per-sale instead of a CPM. But cable is doing a pretty good job," he says, adding that CPMs are up 10% this year and will increase 6% to 7% next year.

The Infomarketing division of Jack Myers Marketing Communications reports a majority of advertisers are likely to increase cable buys within the next two years. Of the 375 ad executives the company surveyed in August, 88% said they would increase cable buys greatly or slightly in the next 24 months compared with 58% for spot TV, 54% for network TV and 52% for syndication.

The study also showed 92% and 83% were satisfied or very satisfied with cable's ad frequency and CPM efficiency, respectively. However, 70% were dissatisfied with the standardized industry research data.

"Cable is working on it. It will [achieve true market value], but it will take time,"

(Continued on Page S-22)

The big hitters: Cable TV

Total & top 10 media spenders (January to June, $000,000)

		1988	1987	% chg
	Total spending	**$330.3**	**$255.7**	**29.2%**
1.	**Procter & Gamble Co.**	$14.3	$10.9	30.8
2.	**Philip Morris Cos.**	12.2	11.6	5.3
3.	**General Mills**	8.9	7.1	25.4
4.	**Anheuser-Busch Cos.**	8.6	10.4	-17.8
5.	**Time Inc.**	8.1	7.4	9.6
6.	**Eastman Kodak Co.**	6.5	1.0	532.9
7.	**RJR Nabisco**	6.3	7.2	-12.7
8.	**Chrysler Corp.**	5.9	1.5	304.1
9.	**Mars Inc.**	5.5	9.2	-40.2
10.	**Clorox Co.**	5.1	3.2	57.9

Source: BAR/LNA Multi-Media Reports

View from the trenches: Cable TV

Merely more channels on the tube

Media director prods cable to sharpen its targeting

Ah, the magic year. Cable is glowing and gloating over having crossed the threshold of 50% household penetration one year ago.

Although reaching more than half of U.S. households should make cable an even more serious contender for national ad dollars, "the magic number for cable occurred years ago when cable reached 33% household penetration," says David R. Verklin, VP-media director, Hal Riney & Partners, San Francisco. Cable penetration should reach 54% to 55% in 1989, he says.

The important factor next year will not be cable's penetration, but the penetration of the individual networks, Mr. Verklin says. In this article, he argues that the time has come to treat cable like other media.

By David R. Verklin

"Well Mabel, that was one heck of a meatloaf. What do you say we watch a little cable tonight?"

I'm convinced this conversation does not occur nightly in 52% of America's households, although so many marketers and agencies seem to believe it does.

Cable has become merely another television channel to the American TV viewer. Within the next 12 months, the advertising community will begin the long-awaited process of considering cable from the viewer's perspective.

Cable is no longer an emerging medium. It's entrenched. In fact, it's really not another "medium." It's just more programs on the tube.

Michael A. Marcotte

Cable fragmentation translates to opportunities, says David Verklin.

In the past, people scanned *TV Guide* to find out what was on TV. America is now using remote controls to sample the programs they might want to watch. The grazing generation has arrived and TV will never be the same.

Interestingly, declining network shares and viewer fragmentation are not necessarily bad news for marketers. Fragmentation has presented opportunities to deliver ad messages to specific groups at specific times.

Using greater frequency in more compatible environments, these spots mean lower overall costs-per-thousand. Next year the broadcast networks and their cable counterparts finally will learn to co-exist to the advertisers' benefit.

The new programming alternatives like TNT can make cable vibrant and 64-channel

(Continued on Page S-22)

POINT OF ATTACK

If in doubt, promote

Cable is caught in a void of its own making, stuck between programming improvements and marketing support that still falls short. Next year promotional activities must close the gap, says Kay Koplovitz, president of USA Network.

"Program improvements in cable have come light years in the past five years, but our promotion and marketing efforts are lagging behind," Ms. Koplovitz says, blaming the situation on the complexities a cable operator faces in promoting 30 to 50 channels at the same time.

"USA has approached this problem by taking on long-term commitments for high-visibility shows," such as familiar off-network series "Miami Vice" and "Murder, She Wrote." This allows the network to focus

Arnie Adler

USA Network's Kay Koplovitz is calling for joint promotions.

promotional efforts on its original program series such as "Alfred Hitchcock Presents," "The Ray Bradbury Theatre," "The Hitchhiker," and its "World Premiere Movie" package that will debut next April.

"Cable penetration is another area where the industry needs to make improvements," she says, adding that program offerings far exceed the consumers' understanding of what is available.

Consolidated efforts in the form of national and local promotions are needed, Ms. Koplovitz says. "Local newspaper and TV guide promotions, along with radio and TV spots, would go a long way toward promoting the product to non-subscribers."

A solution to improving viewership is to run more program-specific promotions in unsold local ad slots.

But cable will be fighting other battles next year. Regulatory issues, particularly in the area of breaking down competitive barriers, will become critical, Ms. Koplovitz says.

"The cable industry will be in the strongest position if the product—meaning programming and service—is of the highest quality and therefore able to withstand competitive entry. This industry began with the premise that competition was good and we ought to be able to win this game by the rules."

—Wayne Walley

'How do you eat an elephant?'

For papers hunting national ads, it's 'A bite at a time'

By Eileen Norris

By all accounts, there will be no major breakthrough in the unrequited love newspapers have for national advertisers. No marriage proposals in 1989, nor in 1990. This couple may never tie the knot.

But they could, and that fact is frustrating media buyers. They talk about what might have been and what still could be.

Facing stagnant retail linage, newspaper executives obviously would love to increase their share of national advertising—the Newspaper Advertising Bureau says it is newspapers' No. 1 growth opportunity. But they want to proceed cautiously.

"How do you eat an elephant?" asks Roger Clapp, advertising director for Richmond Newspapers Inc., and president of the International Newspaper Advertising & Marketing Executives. "One bite at a time. We just have to nibble away at this."

The Newspaper Advertising Bureau's Future of Advertising Committee illustrates the pace. Designed to encourage advertisers in specific categories to mix newspapers into their media buy, the program has attracted only three new advertisers in more than a year.

Tom Herzberg

American Express, American Home Products Co. and Federal Express have signed on and the committee is pursuing a beer and fast food advertiser, says Lance Primis, exec VP of *The New York Times* and the committee chairman. "We're looking for ways to expand it and continue the momentum," he says, adding that the three-company gain meets the FOA's expectations.

But many ad executives say newspapers should capitalize on the fragmentation and competition within the broadcast industry. "We've always felt the time is right to bring national rates into line with local rates," says Jack Cohen, VP, director-print/outdoor media, DDB Needham, New York.

Newspapers would definitely get more national business by reducing rates, he adds.

National advertisers pay about 60% more than local retailers for newspaper space. But national retailers such as Sears, Roebuck & Co. or J.C. Penney Co. pay the lower retail space.

"If newspapers want national advertisers' business they will have to do certain things to get it. If we had a fairer national rate structure the percentage of dollars spent would go up for papers," Mr. Cohen predicts.

The newspaper industry has had increasing trouble luring national advertisers. Its share of national advertising dropped from 16% in 1950 to about 6% last year, according to industry records.

Some buyers suggest newspapers emulate magazines' negotiable rate cards or at least create one that has some flexibility. "Magazines are highly negotiable while newspapers, by and large, stick to the rate card. The client says, 'Gee, if I can negotiate with a magazine, why not?' " says Mr. Cohen.

Bringing national rates into line with local rates will require a lengthy courtship. Newspapers have a differential built into their profit structure, says Dan Pearson, senior group director-media for RJR Tobacco USA.

"But the bigger problem is that the rates charged make the newspaper a less attractive medium, especially when compared to others," he says. "Newspapers have to make themselves more attractive from a cost standpoint, and at the same time be more flexible and have a greater orientation to what the national advertiser is looking for."

(Continued on Page S-26)

Free-lance writer Eileen Norris frequently has covered the newspaper industry for Ad Age *Special Reports and coordinated a report on total market coverage.*

View from the trenches: Newspapers

Publishers pitch in together

Rather gloomy outlook for medium spurs cooperation

Newspapers are discovering that a winning season is the hardest thing to duplicate. They boosted their share of media billings to 10.3% in 1987 from 9.8% in 1986 and billings from the Top 500 agencies to almost $3 billion from $2.7 billion. Still, seers predict final 1988 numbers will tell a different story.

Knight-Ridder Newspapers reports third-quarter retail and general advertising revenue fell below estimates; third-quarter ad linage is down 8% from 1987 at *The New York Times*; Times Mirror Co. blames low ad volume for its soft third-quarter results; the list goes on.

Newspapers are taking it on the chin particularly in retail and national ad revenue. Growth in classified ad linage—still the newspapers' domain—has bolstered overall results.

But with newsprint costs increasing and ad dollars declining in key categories, newspapers face an increasingly hostile environment.

Despite what he calls a "very tough" outlook for newspapers over the next few years, Mike Drexler, exec VP-media, Bozell, Jacobs, Kenyon & Eckhardt, sees some signs of movement by newspaper publishers to satisfy advertisers' needs and improve their performance.

Doug Goodman

BJK&E's Mike Drexler sees papers acting to build ad base.

By Mike Drexler

To put it mildly, 1988 is not a robust year for newspapers. The 1987 stock market crash wrecked a great deal of financial linage, retail and classified placement was sluggish, and decreased spending from other major categories such as food, transportation, oil and gasoline contributed to a lackluster picture.

Worse yet, newspapers in 1989 will face higher operating costs, more competition, increased newsprint prices and advertisers that won't tolerate rate increases much beyond the expected inflation rate.

The next few years look tough for newspapers; they face

(Continued on Page S-26)

POINT OF ATTACK

Reposition in media mix

Bad news *redux* for newspapers: Costs are up, subscriptions and ad rates are up, ad linage is soft, circulation is down.

"Those trends are turning up with regularity," says John Siegenthaler, president and publisher of Nashville's *The Tennessean*, and editorial director of *USA Today*.

"The challenge as a publisher will be no different next year than it has been any other year: To provide a quality newspaper and return a meaningful profit," Mr. Siegenthaler says, adding that process has been made exceedingly more difficult by an inflationary cost spiral.

Newspapers must be more

John Siegenthaler looks to buck the regular downward trends.

proactive, Mr. Siegenthaler says. "We've been reactive so long, at times it's almost negative. We know there will be price increases and circulation drops, but if you get locked into that cycle it kills the incentive for new and creative approaches to increasing business."

The medium should seize the opportunity to capitalize on advertisers' concerns with other media. "It's very clear advertisers are confused by the fractionalization and Balkanization of TV audiences," he says.

"Advertisers talk more about the problems of delivering audiences than rate increases," he says, adding that they are looking for certifiable audiences that newspapers deliver and prove via audits. Yet the industry hasn't addressed the potential of positioning newspapers against other media, Mr. Siegenthaler says. "There has not even been enough experimentation to tell what works," he adds.

Still, newspapers largely remain at the mercy of their home markets. Plant openings, for instance, in the Nashville area have helped *The Tennessean*.

The best news for newspapers would be legislative incentives to expand plant development, he says, adding that President-elect George Bush knows the business community "has been holding its nose and keeping one hand on its pocketbook. If he makes moves to build confidence immediately, I anticipate newspaper publishers will be breathing easier and taking their hands off those pocketbooks."

—Ed Fitch

Growth depends on finer tuning

Listenership up, yet sales are stuck; an insider looks to breaking the jam

Give radio some credit. In the last 18 months it has been challenged up and down the dial, yet radio stations are being acquired for increasingly higher prices, hinting that some believe its troubles are only temporary.

Reduced ad budgets are biting into radio's share and sales are flat.

Network radio revenues in 1987 stood at $371 million—flat from 1986—while spot lost $18 million to $1.3 billion.

From January to June 1988, spot increased 9% to $724.6 million, and network jumped 17.6% to $307.5 million.

Final figures for 1988 will be flat, predicts Sam Michaelson, VP, Saatchi & Saatchi Advertising, New York. In addition to soft sales, audiences are fragmenting and competition is increasing on national and spot levels from cable TV.

"The national media budget process followed a simple path: After network TV dollars had been established, national radio would take the leftovers," says Ms. Michaelson.

But 1988 budgets increasingly were directed to national cable rather than radio to make up the shortfall from network TV's declining audience base, she says.

And while Ms. Michaelson does not see the stresses abating in 1989, "I am witnessing a fundamental change in how radio is being sold that proves that the people behind the scenes are learning to survive, adapt and grow."

For example, this year radio sellers moved to create more precise measurement standards, she says.

In the following article, Ms. Michaelson indicates what radio must do to tune up the revenue.

By Sam Michaelson

Radio growth fell below the rate of inflation in 1988, the first time I can recall such an occurrence. This stands out in stark contrast to the record high-ticket sales of radio stations.

Here's the clincher: Inventory growth is outpacing advertiser demand on all fronts—spot, network and syndication. Ironically, radio continues to show gains in listenership. Raising demand for the medium is the only way to reverse the downturn.

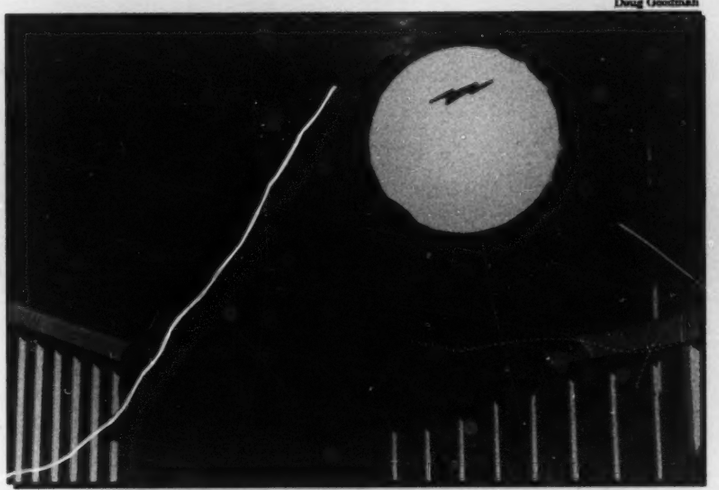
Radio is such a part of our lives that many advertisers take it for granted. While few clients question its ability to communicate ideas and sell product, most do not devote a major portion of their budgets to it.

Radio loses the battle for the budget against the glamorous outlets because it is unfairly perceived as a high impact/low status medium.

The optimist in me says this is a time of opportunity for radio. But not without some fallout first. Several players are being squeezed, and in 1989 some of the smaller tents might close.

Right now there is a glut of programming at fair prices.

Doug Goodman



Radio adds audience, yet unsold inventory goes begging, says Sam Michaelson.

This spells a big opportunity for advertisers that move into the market now. An implosion caused by improved audience measurement is possible next year, which would make the market very tight, very fast—although there will *never* be a shortage of inventory.

Oddly enough, several economists' predictions of a recession bode well for the medium. Radio's cost-efficiency and the low out-of-pocket advertising costs work in its favor during tight economic times.

Many advertisers also move to a more promotional and retail-oriented strategy during recessions. Because of its image as a local medium, radio is perceived as being more successful in pushing retail messages. In addition to extending reach and building frequency, radio is effective as a promotional tool.

National radio also has finally overcome its greatest disadvantage: the lack of precise measurement, particularly among radio syndicators. In 1988, exact time-period measurement criteria became the rule, not the exception, in the New York marketplace. And it is becoming the standard in the rest of the U.S.

It is hoped it will become the industry standard next year. Some larger sellers will resist providing this information, but the smarter ones will.

Issues such as determining tune-in factors and tracking programming schedules and commercial airings hung over the industry like a cloud. Today, even the smallest syndicator is capable of tracking this sophisticated information via on-line access to Arbitron Ratings Co. or Birch Scarborough Research tapes.

As exact time audience measurements guarantee advertisers are getting what they pay for, toward the end of next year it is possible syndicated radio will no longer be considered an afterthought media buy. However, negotiated costs-per-point have not yet risen to compensate for more precise audience tallies.

While costs per thousand will generally increase 4% to 6% next year, CPMs may decrease in markets where new signals are coming on the air. Audience fragmentation has kept CPMs down on adult targeted stations; the youth market has been a little stronger because there are fewer outlets.

Radio also needs to market itself differently.

In the last year, the big news in radio has been the price tags of radio stations, the price of Westwood One stock, how much money Casey Kasem wanted to stay at ABC, the possible selling price of United Stations or the price of the National Football League rights bid at CBS.

Certainly, this proves radio's value as a profit center, but there still is a need to motivate clients to invest more of their budget in radio.

What motivates clients to use radio are winning campaigns with great creative. This may come off as old fashioned, but nothing is more delightful than good radio.

Radio salesmen should sell this aspect of their medium at agencies' creative departments. The greatest way to raise demand for radio is to educate creative groups.

For example, the Radio Advertising Bureau is making joint presentations to creative teams and media buyers on what makes radio unique and how to make great radio commercials.

There is improvement, however. Salesmen no longer wait by the phone for calls; instead they are making a tremendous effort to develop new clients. Also, radio stations are spending significantly more dollars in promotion, both on and off the air, to listeners and media buyers.

But the key to radio's longevity lies in its audience gains. While radio has been facing pressure on many fronts, it hasn't lost any ground with listeners.

The big hitters: Network radio

Total & top 10 media spenders (January to June, $000 omitted)

		1988	1987	% chg
	Total network spending	$307.5	[illegible]	17.6
1.	**Sears, Roebuck & Co.**	29.4	23.3	25.9
2.	**General Motors Corp.**	15.0	8.2	82.6
3.	**Bayer AG**	9.7	10.3	-5.5
4.	**Campbell Soup Co.**	9.6	4.9	98.3
5.	**Procter & Gamble Co.**	9.0	8.4	7.6
6.	**Unilever NV**	8.4	4.6	80.8
7.	**Chrysler Corp.**	8.0	2.7	200.6
8.	**Anheuser-Busch Cos.**	8.0	10.9	-27.0
9.	**City Investing Co.**	7.8	0	100.0
10.	**Warner-Lambert Co.**	7.6	13.7	-44.3

Source: BAR/LNA Multi-Media Reports

POINT OF ATTACK

Radio set to go platinum

Having fallen from its once-lofty pinnacle during its Golden Age in the '30s and '40s, radio now looks up at television.

While spot and network radio attracted $1 billion in ad revenue in the first six months of 1988, TV amassed $9.5 billion when network, spot, cable and syndication are combined.

But Norm Pattiz, chairman of Westwood One, says to forget the Golden Age. Radio, he claims, is entering the Platinum Age as TV stumbles through trying times.

"It will be impossible to get a firm handle on what TV will be like in the late, even the mid-'90s," he says. "Radio is benefitting because radio will be essentially the same."

Radio's biggest challenge is to promote itself and become more visible, especially in light of changes in other media, he says. Network TV will continue to lose share and cable TV will not be able to sustain its rate of growth, Mr. Pattiz predicts. "The opportunities will be ours as changes in video occupy and concern those people."

Norm Pattiz

But technological and regulatory changes will keep TV in the spotlight. "So much is likely to change in the TV business that we must take the offensive. We can't let all the focus be on what happens in the TV business," he says.

The radio industry must raise its visibility among advertisers and dispel the thought that it's anything less than cutting edge, Mr. Pattiz says. It also must reiterate its ability to fit effectively and efficiently into advertisers' increasingly segmented marketing plans.

The radio market's continued fractionalization is not a problem, but an opportunity. "Now the goal is to know the fractional markets and to modify network programming for the markets," adding that the radio marketplace is as fragmented as it possibly can be.

"Sure there's format duplication, but it's just a product of cycles," Mr. Pattiz says. If listeners flock to a new format other stations will adopt the format to compete for the audience, he says. "But eventually success eludes some of the players. And then it's on to the next format."

For example, the New Age format will be out of fashion in a few years, he says. "It will be old age."

While radio will undergo changes, it won't change fundamentally, Mr. Pattiz says. "It will always be the medium you listen to at the beach, when you're sitting in traffic."

—*Kristina Stiner*

View from the trenches: Outdoor

Price right, but hurdles remain

Fighting cigarette, alcohol losses, medium erects welcome sign for retail

The outlook for media hasn't changed for years: Another year, another rate increase. Next year will be no exception in the world of outdoor advertising, although increases should be moderate, according to Robert Flood, senior VP, director-corporate outdoor of DMB&B, St. Louis.

Mr. Flood predicts rates for 30-sheet posters will increase 4.5% in the Top 100 markets, while costs for rotating painted bulletins and eight-sheet posters will rise 4% and 7%, respectively. The latter would have risen about 4% except a major eight-sheet company boosted its rates at double-digit levels, he says.

In the Top 50 markets, transit rates will increase 6%, and bus shelter ad rates will climb 5%. High-traffic airport and taxi advertising will jump 8% and 6%, respectively, Mr. Flood says.

"Many of the increases will be ameliorated by off-rate card negotiations," especially in markets where similar outdoor media compete, he says. Higher costs in some out-of-home media will be offset by increases in traffic volume, retarding cost-per-thousand increases, "one area where out-of-home still compares favorably with the other major media," Mr. Flood says.

Yet, outdoor advertising companies read the writing on the wall: Primary advertiser categories—cigarettes and liquor—continue to face adverse business climates.

Outdoor isn't taking a complete pasting; spending increased 12.9% to $341.5 million during the first six months of 1988 compared with the same period last year.

Five of the medium's Top 10 advertisers reduced outdoor budgets, and newspapers were the only medium with a lower growth rate.

Barring major upheavals, however, 1989 looks like a repeat of 1988 with most out-of-home trending moderately upward, Mr. Flood says.

Below he discusses the market's dynamics and how they will affect outdoor activity next year.

By Robert Flood

Outdoor companies are looking at the big picture in assessing the big boards' potential. They hope the higher cost of spot TV vs. network TV, increasing channel choices and eroding ratings, will prompt some advertisers to direct a greater portion of their budget out of the family room and into the streets.

They also say outdoor's low CPMs will attract advertisers emphasizing regional marketing approaches.

As a result, major outdoor operators will target retail and package-goods advertisers more than ever.

Don Byer, president of the Institute of Outdoor Advertising, reports the retail category is up about 30% this year and has supplanted beer, wine and liquor as the No. 2 outdoor spender.

Although outdoor's reliance on tobacco advertising has declined, it is still No. 1, causing a nagging concern among some operators.

Growth in package goods probably won't be as dramatic as retail's 30% surge, but with some effort from the industry this category has no place to go but up. Healthcare is another category with tremendous volume that has not yet been tapped adequately.

Outdoor operators must address three issues to add new customers. The load factor—average persons per car—needs to be revised, and the Traffic Audit Bureau is studying how to address this.

Bill Stover

Outdoor rate increases may be negated by negotiations, says Bob Flood.

In addition, reach/frequency data needs updating. Because TAB's audited circulation figures form the heart of these numbers, the load factors must be updated first. Hopefully the new Harris-Donovan Audience Measurement System will win approval and replace the current Audience Market-by-Market for Outdoor system that some find faulty.

Advertisers also need a performance audit system that confirms designs are posted in the right place at the right time. A pilot program in five markets is testing the viability of a proposed system.

Of all the out-of-home categories, the eight-sheet poster has shown the largest inventory growth in the last five years, up about 25% to the current total of about 150,000 locations. Fueling the eight-sheet boom is local-level sales growth, which promises to continue.

Advertisers' strong interest in targeting Hispanics promises to continue next year, which should help the eight-sheet business. It is a relatively low-cost way to target geographically contained ethnic groups without wasting circulation.

Tobacco business is up slightly in 1988, and not much change is expected for 1989. The liquor category is off slightly for 1988 and will probably maintain that trend in 1989.

Interest in backlighted eight-sheets remains stable, and no change is foreseen. In the "what's new" department look for the introduction of the front-lighted, eight-sheet posters in some markets.

While eight-sheets will be slightly up, look for slow growth in the number of markets served by bus shelter advertising and a moderate increase in total number of units for 1989. San Francisco, San Diego and Phoenix were added in 1988, bringing to 38 the number of markets served by bus shelters. National shelter inventory increased 700 units or 11%.

Billings for 1988 will hit $2[illegible] million to $25 million with retail the leading category. Other significant users include media, entertainment, beer, financial, fast food and real estate. The sales outlook for 1989 appears stable and rates should increase an average of 5%.

Computer painting of bulletin faces should grow in 1989 as more operators equip their structures to accept the vinyl "Flex Face" or gain experience working with the adhesive-backed faces. The growth of this will hinge partly on outdoor companies compensating advertisers for producing the faces because the cost of hand painting currently included in space rates is not deducted.

Computer painting hopefully will become more competitively priced as equipment is amortized and technology improved. It is not a panacea for the industry—and not even a competitor to the printing press in longer runs—but it does bring the world's oldest medium into the 21st century a little early, offering clear, consistent reproduction.

The variety of supplementary out-of-home media has grown inordinately. More than 120 forms of alternative out-of-home media have hit the market in the past five years; 25 have been introduced in the past 18 months, including four of the 14 truck media companies.

Many of the new forms—including Ad Mat, Coupon Solution, Super Sign, P-O-P Radio—center in and near supermarkets and convenience stores and have enjoyed measurable success. Others are located in bars and restaurants, schools, airplanes, ski resorts, golf courses, video rental stores, health clubs, hotels, malls and theaters while others are on the sides of trucks and phone booths.

Not all of these will make the cut. But one or more could outdistance the current out-of-home leaders not too far down the road, particularly those in close proximity to the point of purchase.

The big hitters: Outdoor

Total & top 10 media spenders (January to June, $000,000)

		1988	1987	% chg
	Total spending	$341.5	$302.5	12.9%
1.	**RJR Nabisco**	30.3	32.6	-7.1
2.	**Philip Morris Cos.**	25.3	24.2	4.4
3.	**Loews Corp.**	16.7	11.3	47.1
4.	**BAT Industries**	10.1	5.0	101.4
5.	**American Brands**	5.7	7.5	-24.3
6.	**Seagram Co.**	3.8	6.1	-38.5
7.	**McDonald's Corp.**	3.1	3.7	-17.1
8.	**Anheuser-Busch Cos.**	3.1	4.3	-28.5
9.	**Grand Metropolitan PLC**	2.7	1.7	56.0
10.	**Holiday Corp.**	2.6	2.5	7.0

Source: BAR/LNA Multi-Media Reports. Note: Major spending by auto dealer groups in outdoor (January to June 1988, $000,000)—General Motors Corp. Dealers, $6.9 million; Ford Motor Co. Local Dealers, $4.1 million.

POINT OF ATTACK

Walk softly; carry big board

Advertising outdoors is no picnic.

Although the medium is growing—the Institute of Outdoor Advertising projects 1988 revenues will rise 7% to $1.4 billion—outdoor controls only about 1.4% of total advertising revenue. It also faces the daunting task of attracting new advertisers while fighting critics who call outdoor "visual pollution."

Don Davidson, president of Gannett Co.'s Gannett Outdoor Group, says a focus on new outdoor venues is key to the industry's health. He also touts greater flexibility and experimentation, both in dealing with outdoor's critics and in developing creative options for new advertisers.

"We need to get more categories into the medium and we've had some success with this in 1988," he says, mentioning growth in package-goods advertisers. Procter & Gamble, for example, increased its 1987 outdoor spending 187.4% to $842,000 from 1986.

"Interestingly, P&G had us participate in a seminar they had on new media, when we're actually one of the oldest mediums around. That tells you a lot about advertisers' perception of the medium."

Don Davidson

He says the industry must do a better job of positioning itself against other media. New computer-based research tools, such as Donnelley Marketing's Conquest system, also should be used to attract more advertisers, Mr. Davidson says.

Outdoor also should focus increasingly on its ability to hit segmented targets. "Some advertisers still see it as a mass medium and use it that way," he says. "Others are using it more carefully, and affordably, to hit audience segments." Adjacency and proximity to point-of-transaction is another area to stress, especially to food and package-good companies, Mr. Davidson says.

Part of the growth process involves boosting the medium's image, he says. "We need to tell our side of the story."

Legislation restricting the number and location of outdoor boards is pending in a handful of cities, and already is on the books in Denver, Jacksonville, Fla., St. Louis and Maricopa County, Ariz. Alaska, Hawaii, Maine and Vermont have banned outdoor boards.

Mr. Davidson describes outdoor's critics as "a vocal minority." While the group is small, a dialog must be maintained, he says. "The most important thing is for us to keep a nonconfrontational attitude."

—Kristine Stiven

Pricing

(Continued from Page S-1)

Cable acceptance up; penetration too low

Although advertiser acceptance of cable is growing, the demand is still far short of the supply of commercial positions available.

Cable's main problem remains: Few individual cable programs deliver audience with ratings even as high as 1% of total U.S. TV homes.

Cable unit rates should rise only slightly more than the broadcast networks, about 5% in 1989. Cable TV CPMs will probably be up about 6%. Most of the additional sales volume will come from buys made on previously unsold inventory with somewhat lower ratings and smaller audience levels.

Not enough demand for network radio

The supply of available network radio time exceeds advertiser demand. But prices for the most desirable time slots may rise in line with the expected inflation rate of about 5% in 1989.

The remaining positions that went unsold or at bargain basement prices this year may show some improvement in 1989 simply because their prices were quite low in 1988. Prices could rise by about 4% overall in 1989.

Spot radio falls below inflation

The demand for spot radio time has been sluggish for the last few years and only moderately better in 1988. In post-Olympics 1989, buying demand should remain low. Rate increases are expected to be lower than inflation, coming in around 3%.

Newspaper linage down; rates up

The prices for national newspaper ads have risen faster than the general inflation rate in the last three years. Not coincidentally national ad linage has declined in most markets. In 1989 national rates will probably be raised about 6% despite slumping space orders.

Magazines flat, but competitive

Magazine ad pages have been flat for several years and competition for orders has held down the net prices realized by most magazines. Because of higher paper and postage expenses most magazines are announcing 6% to 7% basic rate hikes.

However, competition for orders will continue to be intense and rate cards will be modified throughout the year.

Unit price increases in 1989 should level out around 4%. As a result of some reduction in circulation guarantees, CPMs are expected to increase 6%.

Outdoor draws blank

Outdoor ad sales continue to suffer because of declining orders from cigarette and alcoholic-beverage marketers. The outdoor companies have a lot of unsold boards, allowing buyers to hold price hikes to a minimum in many markets.

Unit prices for outdoor showings on average are expected to be up 4% in 1989. With slightly higher traffic counts, typical CPMs should rise 3% next year.

Mail stung by quadruple-whammy

The price of mailings has been affected by higher postage charges, but even more by the rising paper, printing and list procurement costs. In 1988 the cost of all these factors rose sharply.

However, in 1989 the price pressure should be in line with the general inflation rate and the cost increase of a typical mailing should be about 5%.

Post-Olympics stress

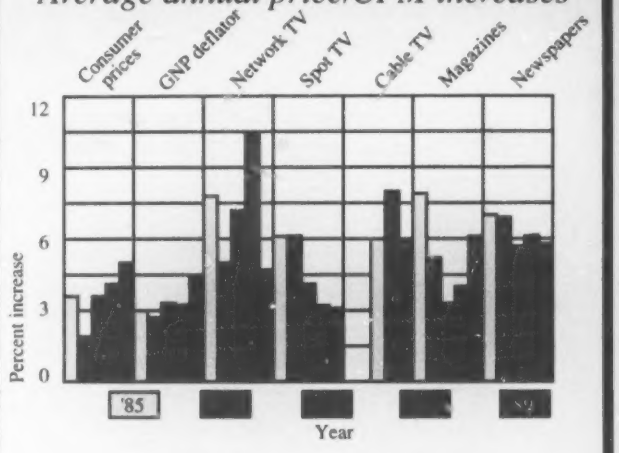
The media face not only the post-Olympics, post-election year letdown, but an increasingly guarded view of the nation's economic outlook. In addition, the number of brands with continuity ad schedules continues to decline.

The demand is soft at the same time that the supply of advertising units is effectively being expanded by the growth in the use of preprints and 15-second spots, creating a classic supply-demand situation that should lead to a buyer's market.

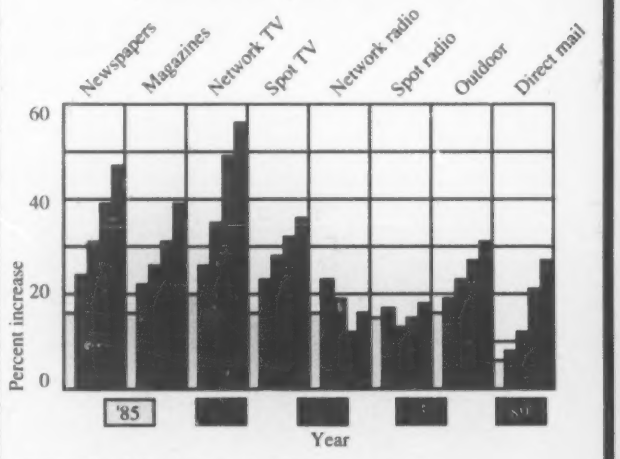
Although inflation in the general economy should be somewhat higher in 1989, it is not likely that these higher cost pressures will reinflate media rates.

MEDIA PRICE TRENDS

Average annual price/CPM increases



Media cpm trends from base years '82-'84



Source: McCann-Erickson. * indicates estimated figures.
Cable TV data for 1985 and 1986 is not available.

Dusty racks

(Continued from Page S-2)

1989. Instead of generating studies that say there is relatively no difference between readership in the front and back of the book, it is time for a more enlightened approach.

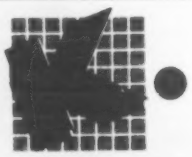
Publishers should discuss positioning problems with clients and agencies before the schedule is determined. Big accounts should receive a requested position; smaller advertisers may be forced to pay a premium.

There will be more use of spectacular units in 1989 and an increase in special issues as advertisers try to rise above the clutter. Rates in specials also are negotiated more readily.

Magazines will get an increasing share of their revenue from regional and local market editions. However, they must create a revised pricing structure to fit into advertisers' local/regional marketing plans because the premiums paid for regional buys are too high.

Despite these efforts to increase magazines' share of the media mix, they will show a modest page gain of 2% and a revenue gain of 8% to 10% next year. The major increases should come from automotive, toiletries and cosmetics, direct response retail, travel, computer and office equipment and health products.

This year magazines will be fortunate to finish ahead in pages over 1987. Despite publishers' efforts to position the medium as flexible and cost-effective, the story for 1989 will be similar.



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Channels

(Continued from Page S-7)

says Mr. McHugh. "They are not going to jam it down our throats overnight.

"I've said this before, and people don't like it, but we do buy eyeballs. We're trying to sell product and sales are directly proportional to the eyeballs we reach," he says. "Cable has the potential to only reach 53% or 54% of the households. If they had 97% coverage and matched broadcast ratings, they could command the same CPM."

Increased competition from new cable channels adding more inventory also poses a problem. "More than anything else, new networks with more inventory have held down unit prices and CPMs," says Dick Hammer, managing director-advertising sales, CBN Family Channel, New York. To raise prices cable must provide better service and more viewers with more desirable demographics, which will come only with programming improvements, he says.

Another solution is to add value to media buys with program sponsorship, product placement or other incentives. "Get the advertiser involved, Mr. Werner says.

Cable networks also have more leeway in terms of product placement in programs than broadcast networks. Beatrice Cos., for example, sponsors "Country Kitchen" on TNN and certain Beatrice products are usually in the kitchen.

"To get our fair share we might build a program for an advertiser," Mr. Werner says. "If an advertiser had $200,000 to spend and didn't care, all viewers and CPMs are alike. But we try to give an added value or some sort of zap protection. You don't do it blatantly and obviously, but it can be done subtly."

Cable sellers cannot compare their medium to network TV, he says. "If you walk into a time buyer and say you're no different than CBS, they'll say, 'You're only in 50% of the households, the equivalent of the worst daytime show on CBS. We buy it for a $2 CPM, so we'll buy you for $1.75 because you're less than the worst on CBS.' If you walk in and say, 'I'm different' you get away from being tagged the worst," Mr. Werner says.

> *"We're trying to sell product and sales are directly proportional to the eyeballs we reach."*
>
> **Bart McHugh**
> **DDB Needham Worldwide**

Jack Myers, president of his own consultancy, says cable CPMs should be higher than broadcast TV's. The ability to target a narrow audience is considered a premium in most media, he says. "But in TV it's become a liability."

Cable's effort to be accepted as a "mainstream" media could push it away from its value as client-oriented media, Mr. Myers says.

"The answer is for cable to make sure it is responsive to marketing needs vs. simply providing eyes. The challenge of cable is how to do both," Mr. Myers says. AA

Victim

(Continued from Page S-7)

capacity worthwhile. Don't be surprised if more major awards shows, first-run movies, miniseries or major sports events are aired exclusively on advertiser-supported cable by 1990. Cable's promise will be realized through vertical networks offering unique, tightly defined programming concepts. Unfortunately, smaller networks will have trouble selling inventory in 1989.

Expect two or three networks to emerge in 1989 and one network to fold. Also anticipate more than one to change ownership; Wall Street will be infatuated with cable again in 1989.

Nothing to write home about

The writers' strike was predicted as a magic moment for cable, giving recalcitrant network-only advertisers the final push into significant cable schedules. Those who said this really don't understand "the medium."

Cable is more like radio than broadcast TV with a few notable exceptions. Cable is not and should not be considered a substitute for network numbers. It is a CPM softener, or a targeted, low out-of-pocket, high frequency way to use TV.

The hot spot

Spot cable is one of the hottest ideas in TV. The remaining problems are almost logistical.

Centralized access to salesmen will emerge in 1989. National companies will represent local operators in one Area of Dominant Influence and sell a whole market or group of systems within a market at prices competitive with spot TV. Generating research that details cost-per-point vs. the current cost-per-spot also will become a priority. Hard interconnects will eliminate the time-consuming task of bicycling tapes to 15 systems in a single ADI.

Pricing will begin to reflect the idea that spot cable can compete with classic broadcast spot. Local cable reps need to hire high-powered spot TV salesmen to run the business and advertisers will beat a path to their door in 1989.

Let's be upfront

Cable upfront has already happened, will grow and is a sure bet for the 1990s and beyond. Upfront will grow next year by about 10% vs. 1988-89.

Remember that cable booked $1.1 billion in sales, with a hefty portion in upfront last year. But don't forget the networks did $9 billion.

Just who do they think they are?

We started to see the emergence of the cocky cable salesman in 1988. Get ready, it will continue in 1989.

Total cable spending will be up about 10% to 12% next year. CPMs should be up by perhaps 7%. My advice to cable salesmen is to think longer term. They should stop swinging at other cable networks and start talking about buys that involve more than just their network. It's also time they stopped swiping at broadcast networks and work harder on clients that already book business and offer long-term deals.

Cable networks should pitch their ability to move merchandise. Let's see some case studies of positive changes in awareness, intent, usage and, most of all, sales volume.

There's a difference between being cocky and confident; 1989 is the year to make friends and regroup. The competition is not with the networks, it's for the viewer's share of mind.

What does that viewer really think? I think Mabel just told Harvey to stop changing channels with that damn remote, or she'll wrap the meatloaf pan around his head. AA

Doc prescribes a few remedies

Cable is at that awkward age—not a kid anymore, not quite an adult. It is clear some of the networks are having trouble struggling to maturity, according to David R. Verklin, VP-media director, Hal Riney & Partners.

Below the Cable Doctor puts out his shingle, gestures to the couch and offers advice and therapy.

USA Network—Your promotional mailings are the best in the industry. You're also the only network that continues to sell cable as an industry.

It's unfortunate that "Miami Vice" and "Murder She Wrote" reruns are your key programs. It's time to bid for some major sports or big-name programming events.

And give your research director a raise.

ESPN—You're in the big leagues now. Your NFL programming points tellingly at the potential of the wired TV signal, with your second-year games getting ratings estimates of 10 and 11.

But stop selling your NFL games in a package with a matching amount of regular inventory. We don't like it when the networks do it, and we don't like it when you do it, either.

You're the industry leader, so bid for bigger, better and more highly rated sporting events. The NFL is a fabulous start. How about Major League Baseball? How about a piece of the Olympics?

CNN—The most aggressive sales force in the business. Stop selling on a program-by-program basis to AT&T but on a rotation to Slim Whitman.

You're more like an all-news radio station: low ratings, fabulous demographics, terrific frequency. Sell it like radio; don't sell it like network TV.

Relax, you're a terrific network, but not "the world's most important."

WTBS—The Braves are far from "America's Team," but we love the job you've done with "National Geographic." You're committed to family-oriented programming. Your ratings will continue to grow.

You were cable before cable was cool. Now you're in cable when cable is cocky.

A&E—The Cinderella network on the brink of becoming a major player. It's time for you to buy some major programming. Make a bid for one of the awards shows.

But we love the fact that you're the only network that still lets us hear Walter Cronkite. How about producing more of your own documentaries and less PBS reruns?

Lifetime—If it were not for "Attitudes," you'd put us all to sleep. How about something in prime time?

HBO, Cinemax, Movie Channel, etc.— I predicted you would take some form of advertising every year for the last two, and I'll continue to predict it for 1989. You're going to let advertisers run some spots during movie breaks or you'll agree to take a four-minute intermission within a film. You'll come knocking next year.

Your subscriber base just won't grow or pay enough for you to compete against home video for product in 1989 and 1990. You need the advertising community, and we'd like to work with you—1989 will be the year.

The Travel Channel—Does Carl Icahn really need money that badly? Carl, sell it to someone who really wants to make a go of it.

It's a terrific programming concept for certain clients. The Travel Channel is a perfect example of the benefits of fragmentation, but let's see some numbers in 1989.

MTV and VH-1—The thrill is gone. You've got to mix some programming in with videos.

The changes you made in 1988 were in the right direction. Cable is a medium that was meant to evolve. Go for it.

Nickelodeon/Nick at Night—With 37 million subscribers, you're a hitter. Although advertisers are searching for ways to reach children and young adults, you're still the biggest secret in town.

To the buying community, you're incorrectly viewed as the place for after-school specials and a glass of Bosco. Next year run a hard-hitting trade campaign and throw some money toward a major tune-in effort.

You need to show us that you're in touch and hip. You've got a product to market just like the rest of us. Do it. AA

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SPEAKING WITH AUTHORITY

Passion cools for media buying pools

There has been a lot of big talk concerning the possibility of pooling media buying in Europe and elsewhere, leading to discussions on client reaction, conflicts and clout.

Although the passion for pooled media has cooled, media directors talk about the concept and how to increase clout.

Katz

Schultz

Kroyer

Heller

Cheryl Kroyer, senior VP, media director, Ketchum Advertising

"This strategy creates a bottom line-oriented buying service mentality. In such an environment you're not as concerned with the richness of the media mix, the quality of the targeting.

"You've also got to ask why a big client would want a small client to hang on to its clout coattails. What's in it for them?

"I also can't believe that the media can afford to give major price reductions just because they're working with group buyers. The media can't let any one company or agency become so important that they take control. Although if times ever get tough, they'll do anything they can to get the business.

"I started thinking consolidated buying would never happen here because there's too much working against it, but if the economy gets worse or the networks and big media companies get into trouble anything could happen."

Louis Schultz, exec VP, Lintas: Campbell-Ewald

"There is a point where you become too big. If you are dealing in upfront and can control 33% of inventory, the media can't cut a deal because it hurts their bottom line.

"Here the big agencies are within a couple of cents of each other on major media buys, anyway. Still 1% of $100 million is a lot of money.

"You could consolidate buys within an existing system. For example, Interpublic could create a major buying arm and have it handle non-competitive IPG brands. However, you have to be careful that other brands related to the group but not served by the buying arm are not put at a disadvantage."

Art Heller, exec VP, Griffin Bacal Inc.

"The independent buying services handle about 30% of total media business in England and have become a formidable challenger to agencies. This is a response to that challenge. If [buying combines] were to happen here it would be an overresponse to the current challenge in the U.S.

"I'm not a supporter of the potential merger of media departments on the basis of clout. When we talk clout we're emphasizing dollar clout that exists, but is not the sole determining factor.

"It not only raises client conflict problems and questions of how to distribute media buys among agencies, but provides agencies with the 'opportunity' to give clients less service. Merger mania was presented as a way to provide more service. In fact, there have been a lot of cutbacks.

"We are a service business. We must have a terrible wish to hurt ourselves."

Hal Katz, exec VP, Vitt Media International

"I think the programs will fail in Europe. A lot of the media is placed by buying services, which are already owned by mega-agencies.

"Clients were unhappy with megamergers because they didn't see benefits. Agencies see the benefit in increasing media clout. But it's simply a hidden megamerger. They will tell clients it's a way to increase clout, but it really is a way to reduce staff because 40% of staff will be cut. Clout is not money, but how you think and the people you bring to the table to exploit the efficiencies.

"Anyway, they act like they'll increase their clout by combining billings to $11 billion from $5 billion. Who in their right mind can say $5 billion is not a lot of clout already?"

—By Kristine Stiven and Ed Fitch

Elephant

(Continued from Page S-12)

Man does not buy by rates alone, says John Kosanke, president of Knight-Ridder Newspaper Sales. "Rates can be an inducement, but it's an addendum to a marketing plan. We're reaching out and papers are getting more flexible."

The purchase is a matter of pricing, positioning and convenience, he says. "The momentum is building, but we won't get there in 1989."

To reduce national ad rates, newspapers would have to raise retail and classified rates, says Mr. Clapp. That cannot be done because the first category is down and the other relatively flat. "It's really a Catch-22 situation." Newspapers that have lowered rates under special marketing plans are getting the same total business at the lower price level, he says.

A newspaper industry discount plan that offered national advertisers up to a 30% rate reduction attracted more than 200 newspapers. However, only a handful of advertisers, including Campbell Soup Co. and Perdue Farms, picked up on the deal. "But the program is moving along," insists Jim Wilson, NAB senior VP-national sales.

Too many conflicts among newspapers arose concerning the package-goods rate plan's criteria, says Bud Shields, VP, manager-newspaper buying group, Lintas:Campbell-Ewald.

The plan clearly stipulates advertisers must buy at least a ¼-page ad 13 times a year to qualify for the rate. "But different papers have different definitions of what constitutes a package good," Mr. Cohen says. "Some say beer, some say over-the-counter drugs and toiletries. Some accept coupons, some do not.

"It was a good first step, but there's a limit as to which kind of advertiser can use it and how they can use it," Mr. Cohen says, a problem compounded by the papers' inability to agree on those limitations.

"You've got 1,600-to-1,800 different individuals running the newspapers and they all have different ideas," says Mr. Pearson.

NAB does not take a firm stand on the rate-disparity issue because its members are split on the subject, says Mr. Wilson. "There are several things we have agreed upon as an industry to make newspapers easier to plan, evaluate and use."

Recent developments include using a standardized advertising invoice and eliminating minimum-size requirements for color ads. "We are stressing a market-driven approach, offering more flexibility and increased standardization," he says.

But agency executives reiterate that newspapers may be missing their best chance to make inroads into new territory. "The national advertiser is in a quandry about the broadcast business, what with cable, the networks, independents and VCR zapping," says Mr. Shields. "It's a perfect opportunity for newspapers to capitalize on the fragmentation of the broadcast industry."

Broadcasters probably will counteract their problems before newspapers react, he says. "One or two years is the most time the newspaper industry has to increase its share of national ad dollars."

The big hitters: Newspapers

Total & top 10 media spenders (January to June, $000,000)

		1988	1987	% chg
	Total spending	$3,154.2	$2,998.2	5.2%
1.	**Sears, Roebuck & Co.**	58.7	71.9	-18.3
2.	**May Dept. Stores**	56.1	70.4	-20.4
3.	**Macy Acquiring Corp.**	54.3	51.2	6.2
4.	**General Motors Corp.**	51.5	33.1	55.5
5.	**Federated Dept. Stores**	41.5	58.9	-29.5
6.	**Texas Air Corp.**	39.6	38.5	2.9
7.	**Philip Morris Cos.**	34.8	21.9	58.8
8.	**K mart Corp.**	32.0	35.8	-10.6
9.	**Dayton Hudson Corp.**	30.6	30.6	.2
10.	**Carter Hawley Hale Stores**	28.2	18.6	51.2

Source: BAR/LNA Multi-Media Reports. Note: General Motors Corp. Local Dealers spent $34.5 million, January to June 1988.

Publishers

(Continued from Page S-12)

a weak ad climate because there's nothing on the horizon to spur the economy. Competition for local dollars particularly looks great.

In addition to the issues of relative pricing and cost efficiencies of alternate media, there's growing competition from cable TV. Local cable operators have become much more aggressive in marketing their programs to both local and national advertisers, giving newspapers an aggressive competitor on their turf.

The medium also continues to be plagued by the use of free standing inserts to replace run-of-press insertions. One bright spot is national advertisers' growing interest in doing local and regional promotions in conjunction with retailers.

Of course, the constant debate of the national/retail rate differential has not been put to rest—and it may never be resolved. The best we can hope for is a tangible sign that publishers are willing to help national advertisers by reducing the disparity. It is encouraging to see further incentives built into the national advertising discount structure.

Interest is up in forming joint efforts such as two programs involving American Express where ads for its corporate card and traveler's cheques were placed in similar positions on the first stock market page and the weather page, respectively. Newspapers also participated in an extensive merchandising effort in the second program.

Specialized space units, franchise positions, single-sponsored sections, couponing tie-ins and consecutive insertion programs are only a few of a newer, wider range of placement options.

Newspaper publishers also recognize the need to standardize space contracts, invoices, Standard Rate & Data Service listings, advertising positions and rate structures.

Publishers are realizing national advertisers need to know buys can be planned and structured in a similar way across many markets. If advertisers want to tailor their campaigns for different parts of the country, they must be able to use regional clusters of newspapers.

Newspapers are starting to acknowledge this need. The Impact and Flex plans permit multiple coupon placements and allow advertisers to tie into seasonal-themed coupon promotions, respectively. These Gannett Co.-repped plans, which allow advertisers both national and regional options, will expand next year.

Newspaper publishers are beginning to accept that they no longer can do business as if each publisher were an island. Standardizing research data, pricing structures, creative executions, merchandising and promotional support and color capability must grow if national ad revenues are to grow.

So far the type of ad rate negotiations common in the magazine industry haven't happened in the newspaper market because there aren't too many dual-paper markets to stimulate a price war. It could happen in selected markets and may on a larger scale because of the business environment.

But I don't think it will break wide open. It's more likely publishers will focus more on frequency discounts and favored ad positioning.

But publishers must continue to adapt if they are to prosper. They have learned they can no longer take their readerships, retail ad base or the promise of national advertising for granted.

Managing editor (operations) Ed Fitch coordinated this Media Outlook report.

Coming

Next week ADVERTISING AGE's Special Report will focus on **Marketing/Advertising Research.**

MARKETING TO HISPANICS

Perspectivas

Edited by Ed Fitch

NUMBERS GAME

RADIO FINALLY TUNES IN RESEARCH

A reunion of sorts took place in New York on Nov. 18 to get a tenacious monkey off Spanish radio's back. The Spanish Radio Advisory Council, which was folded into an Advertising Research Foundation subcommittee, reconvened to review Birch Scarborough Research's proposed methodology to measure Hispanic radio listenership (AA, Sept. 26, 1987, *et. seq.*).

"The committee voted unanimously to endorse us," said Tom Birch, company chairman, ending months of bickering among stations, research companies, agencies and marketers concerning Spanish radio measurement methodology.

While the endorsement essentially represents only a vote of confidence, stations and agencies are expected to begin subscribing to Birch. Major Hispanic radio rep company Caballero Spanish Media already subscribes to Birch, as do a number of top Hispanic agencies. At press time Birch was negotiating with Tichenor Spanish Radio, the largest Spanish-language station group.

"If Tichenor is ready to buy and Caballero and Katz [Hispanic Radio] go along, that swings it," said Abbott Wool, senior VP-media director, Cadwell Davis Partners, and SRAC chairman. "Big station owners seem to be going along."

Not all of the concerns have been addressed, said Betty Ann Morse, VP, media research director, D'Arcy Masius Benton & Bowles. "Although I think this is a step in the right direction."

One of the primary failings remains the lack of a door-to-door component; Birch performs telephone interviews and committee members and station owners wanted a door-to-door element to compare results.

Ms. Morse said the ARF subcommittee is hoping to mount a study to determine if phone ownership affects listenership patterns, but admitted "I don't know if it will get off the ground."

"The phone question is the big one that has not yet been addressed," said Mac Tichenor, president, TSR. But he said it is time for action. "We should act now and reserve judgment on some of the unanswered questions."

Any recommended methodology would have faults, added Monica Roslow, Conill Advertising's director-research. "Doing research in the Spanish market is never perfect and it never will be. What's important is that it's reliable and that both sides can live with it," she said.

Gaining the endorsement should bring Birch a lot of business. "We've crossed the precipice and now realize the enormity of the market before us," Mr. Birch said.

STATION BREAKS

GALAVISION FACES A BASIC PROBLEM

John Pero seems to like tough sales. He commanded the sales operation of Spanish International Network and Univision when some corporations' attitudes toward Hispanic marketing bordered on contempt.

Just when Univision started to benefit from the market's momentum, Univisa sold it to Hallmark Cards. Mr. Pero remained with Univisa to oversee its Galavision cable network's transition from a pay tier to an ad-supported, basic cable operation.

Ten weeks into that conversion, he uttered the predictable: "Cable in general is tough to sell; selling Spanish cable isn't the easiest thing in the world."

Mr. Pero believes the network can find a place, adding that advertisers are slow to think of Galavision as an ad medium after eight years as a pay service.

"Our concern is the area of coverage," said Publicidad Siboney Media Director Meg Bernot. "They have 25%, Univision has 85%, Telemundo will be up to 75% in 1989. The issue is whether buying a string of low-rated spots on Galavision is worth it."

The continuing addition of Telemundo Group stations in many markets also has hurt Galavision. "Now there are greater out-of-pocket expenses just to cover the two broadcast networks efficiently," Ms. Bernot said.

Mr. Pero has met with some success. Miller Brewing Co. is buying spots on hourly sports updates, and sales are strong in Los Angeles where local coverage is good, he said.

Eduardo del Rivero, VP-account services at Miller agency Mendoza, Dillon & Asociados, said the buy was generated by "a very good deal. We're just testing it to see if it will work."

Galavision is cutting some sweet deals, with :30s going for less than half of the $400 rate, Mr. Pero said. "It's an attractive package and other clients are interested," although he would not specify.

Mr. Pero suggested that when subscriber households reach 3 million—"50% wiring of Hispanic households, same as the general market level"—sales will follow. Galavision currently reaches about 1 million households.

Coverage will jump 50% in the first quarter of 1989, predicted Starrett Berry, Galavision's VP-general manager. "A lot of systems have waited to convert until after the fourth quarter," he said.

Viewer response has been mixed, Mr. Berry admitted. "We're still in a tough transitionary period." Galavision altered its programming from entertainment/variety to news when it converted to basic.

"We had a lot of die-hard film and *novela* fans," he said. "We're virtually changing audiences entirely." The news format is attracting a younger, male-oriented audience; the viewership previously had skewed toward older women.

Mr. del Rivero said Galavision's male audience was a bonus for Miller, and that "there is a precedent in the general market that a news channel could work well."

However, Galavision executives are reevaluating programming. "If the viewers desire slightly different, more diverse programming we will include it in our menu. We made a drastic change and want to make sure the format will take hold," Mr. Berry said.

Entertainment elements may return to the mix. An increase in first-run sports programming also is being considered.

Adding entertainment shows would put Galavision in direct competition with Spanish-language broadcast networks, Ms. Bernot said. Systems in most major Hispanic markets carry all three networks. "And altering programming doesn't change the fact that it has only 25% coverage."

Larger audiences might result if Galavision can beat Univision and Telemundo at their own programming game. "If they come up with better programming than the traditional fare, they'll get audience because viewers want an alternative," Mr. del Rivero said. Until this happens, "cable will be a marginal player," he added.

"We don't have a physical make-or-break point," Mr. Berry said. "Galavision has been here for nine years and people thought it would be gone by now. There will always be a place for something like this."

PRODUCT AND ACCOUNT ACTIVITY

Hyundai Motor America, which did not have a 1988 U.S. model, stunned the marketplace by grabbing an 8.2% share of 1987 model year sales among Hispanics, according to R.L. Polk & Co.

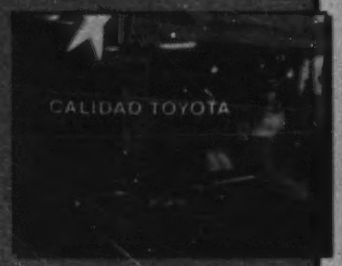
Last month, Hyundai broke Hispanic market TV and radio spots in Miami via Backer Spielvogel Bates. As the numbers show Hyundai has done very well without advertising.

"In most Hispanic areas our penetration has been fantastic by using English-language media," said Joe Corey, national advertising manager. "There is no evidence that adding Hispanic media in markets like Los Angeles or San Antonio would bring us anything."

Miami differs in its media usage. "We've been studying it and our evidence shows that Miami Hispanics watch and listen to Hispanic media (at the exclusion of general market media)," he said, adding that Spanish-language media is receiving 10% to 15% of the local spot budget.

But Hyundai has lots of company. Nissan Motor Co., Hispanic market import leader with a 6.4% share of 1987 sales, launched fourth quarter spots in Miami via Casanova, Pendrill Publicidad.

Toyota Motor Corp., the No. 3 import with a 7.5% share, recently broke a network TV and radio campaign via Conill Advertising, representing the most aggressive import advertising to Hispanics. Toyota also is running heavy local campaigns in eight markets.

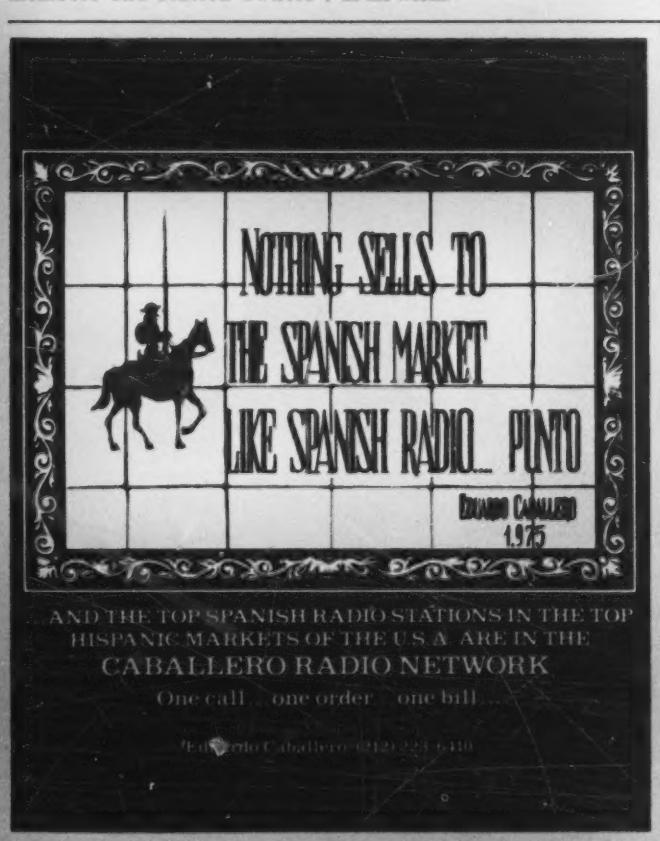


Not only is it the fastest growing consumer segment, "but in terms of percentages, Hispanics are moving into the affluent segments at a faster rate than any other segment," said George Borst, Toyota's national ad manager. "Of course, they're starting from a small base, but we really see them as a dynamic, loyalty-driven consumer force."

Despite the upsurge in ad efforts, Mr. Borst said the imports did well among Hispanics because of population concentrations. "We would get a disproportionate share anyway because the Hispanic population is located in our strong sales areas."

- HBO assigned advertising of its "Spanish-enhanced project" to Publicidad Siboney. In January selected HBO and Cinemax programs will be aired in Spanish via second audio programming.
- R.J. Reynolds Tobacco USA to Bravo Group as first Hispanic agency of record. Bravo reportedly will focus initially on Camel filter cigarettes.
- Certified Grocers of California to Castellanos Latina for its Golden Creme dairy line as first Hispanic agency of record. Also to Castellanos, National Home Shopper's distributor recruitment and image advertising. Both multi-media accounts carry $750,000 budget.
- After testing in San Antonio and Los Angeles, Quaker Oats Co. has rolled TV and radio spots for Gatorade thirst quencher nationally. Berry-Brown Advertising handles.

- Procter & Gamble Co.'s Ivory and Camay to Conill Advertising, which also was named first Hispanic agency of record for Helene Curtis Industries. Inaugural Finesse spots are breaking in San Francisco and Miami.
- Roundup: Zebbies Inc. to Marketing Mercadeo International as first Hispanic agency of record. Spice marketer Bekal Products Co. to Fernandez Barsdat/JGR & Associates. Highland Superstores' is breaking initial Hispanic market TV campaign, featuring comedian Paul Rodriguez, via W.B. Doner & Co. General Mills and Circus Vargas have created a $300,000 proof-of-purchase promotion. GTE California via Sosa & Associates will spend $1 million in November and December on inaugural Hispanic ads.


NOTHING SELLS TO
THE SPANISH MARKET
LIKE SPANISH RADIO... PUNTO
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HISPANIC MARKETS OF THE U.S.A. ARE IN THE
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CAMPEON DE LOS HISPANOS GANNETT

THINK TANK

LOYALTY BORDERS ON IMMIGRATION

To successfully crack the U.S. Hispanic market a product may do well to imitate part of its target market and enter *El Norte* via a Rio Grande crossing.

What has long been assumed to be a cultural tendency toward brand loyalty is often brand awareness built in Latin America, transferred

to the U.S. via immigrants and perpetuated by minimal advertising of competing products here.

"No real cultural principle accounts for this. In the absence of a cultural argument, it has to do with the marketing environment," said Roger Sennot, general manager, Market Development Inc.

Fitch

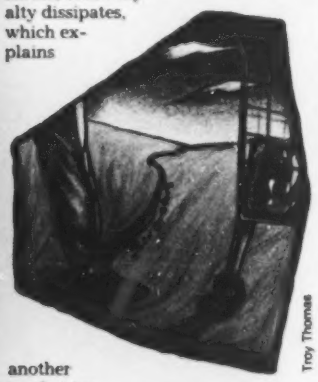
Many products' high sales among U.S. Hispanics result from aggressive Latin American advertising, said Rolando Wejc, VP-account director at Leo Burnett Co. and formerly exec VP, director-client services at Leo Burnett Venezuela, C.A. "It's simply loyalty to the brands they know best," he said.

At stake is a sizable portion of the market. U.S. Census Bureau figures estimate that immigrants account for 50% of U.S. Hispanic population growth. The numbers likely are much higher, taking into account the undocumented.

Companies with strong general-market campaigns cannot expect to reach this sizable segment.

"The newcomer who functions primarily in Spanish will not have the same information imparted to him by companies because general-market efforts often are not duplicated in the Hispanic market," said Joe Albonetti, VP-executive director of Tinsley Advertising's Conceptos International.

Not surprisingly, the so-called brand loyalty is greatest among foreign-born, Spanish-dominant consumers. But when they are exposed to advertising via Spanish-language media, brand loyalty dissipates, which explains



Troy Thomas

another market truism: Hispanics will try new products.

"The two behaviors are a result of the same thing," Mr. Sennot said. "A good [U.S. Hispanic market] campaign will drive Latin American brand loyalty away in no time."

So what's a company to do? "Take care of those people who've taken care of it," said Herney Nisimblat, director-Hispanic marketing, Colgate-Palmolive.

Colgate toothpaste has more than 80% share of the Latin American market and about 65% share of the U.S. Hispanic market. "If we don't continue to talk to them here and continue our efforts, we would not enjoy that," he said. Loyalty must be refreshed through advertising, couponing, sampling, community events and promotions, "or they'll forget about you."

The brand with the lower Latin American share has but one choice. "You certainly need a bigger effort if they don't bring product awareness with them," said Mr. Wejc.

The marketing principle is universal: The more media and advertising exposure, the more awareness and trial. "If we weren't talking about Hispanic market behavior the air of mystery would be dispelled," Mr. Sennot said.

Many don't dismiss a cultural factor, however. "The psychographics have to be considered"; Hispanics are more conservative and less prone to switching brands, said Mr. Nisimblat.

Again, the specific marketing environment dictates tactics. "Trial occurs in the less brand-name conscious categories," said Ricardo Amundsen-Bueno, president of his own marketing consultancy. Beer will carry more brand loyalty than tissue; "things that say, 'I'm this kind of guy,' vs. those that don't."

Brand loyalty is destined to become less of a given as Hispanic marketing becomes more competitive. "As the noise level and the information provided increase, no one can assume Hispanics will remain loyal," Mr. Albonetti said.

Future acculturation and immigration patterns also may lessen the impact. "For the first generation Hispanic, it helps a lot. What happens next depends on a lot of variables," Mr. Wejc said.

As more U.S. Hispanics are born north of the Rio Grande, brand loyalties will swing to those products that also are nurtured primarily in the U.S. Hispanic market.

■ Next year's activity should be a good gauge of Hispanic marketing's relative importance. When total budgets are tight—as they are expected to be next year—segment marketing historically has been pared in favor of other programs.

"We don't expect cutbacks on our side," said Eduardo del Rivero, VP-account services, of Hispanic shop **Mendoza, Dillon & Asociados.** "It's finally at the point where clients are realizing it's not just an opportunity, but a necessity."

Contributing to this awareness is stagnant general-market performance. "As brands mature in the general market, marketing managers are realizing there is real additional business potential in the Hispanic market," he said.

Carlos Rossi, ceo of No. 2 Hispanic shop **Conill Advertising**, said in general clients are investing more. "But when you look specifically, growth is coming mostly from those clients that are already committed and are now moving forward at a faster pace." Those companies are not necessarily the largest, he said, but those with the most analytical marketing strategies.

The boom abates

Hispanic market expenditures ($000,000 and % change)

1988	$550.1	12.1%
1987	490.7	23.3
1986	398.0	19.3
1985	333.5	17.2
1984	284.5	26.8

Source: Hispanic Business

"Still Hispanic marketing is one of the first areas to get cut," Mr. Rossi said. One positive change he noted is that some companies—even those that are cutting back—are devoting a greater proportion of their budgets to Hispanic marketing.

Improving performance next year may be relatively easy. Growth in 1988 Hispanic marketing expenditures is the lowest of the decade. Total market expenditures will rise 12.1% to $550.1 million, far off the 23.3% pace set last year, according to *Hispanic Business*. An additional $59.4 million was funneled into the market this year compared with a $92.7 million surge in 1987.

With some exceptions, leading Hispanic market advertisers did not bump up 1988 budgets substantially. In economically suspect times, further growth seems increasingly to hinge on bringing new advertisers into the market.

—*Ed Fitch*

Laura Fabian **Angelica Mi Vida**
Braulio **Angelica Mi Vida (Theme)**
Julio Iglesias **Moods Specials**
Emmanuel **Moods Specials**
Jose Luis Rodriguez **El Puma**
Lana Montalban **Informador 47**

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Without Us, New York Wouldn't Be New York.

Source: Arbitron 1972 through 1988 to date.